

Department of Defense Inspector General



Semiannual Report to the Congress

*April 1, 1994 to
September 30, 1994*



DTIC QUALITY INSPECTED 4

19970722 155

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October 1994

FOREWORD

I am pleased to report on the accomplishments of the Office of the Inspector General, Department of Defense (OIG, DoD), and the DoD audit, inspection and investigative organizations during the period April 1, 1994 to September 30, 1994.

The accomplishments of the Department's auditors, investigators and inspectors during the period have been particularly significant, as shown below.

- *Internal auditors identified \$7.9 billion in potential monetary benefits.*
- *Contract auditors examined over \$167 billion of incurred cost and contract proposals, took exception to over \$2 billion and recommended that \$4.5 billion be put to better use.*
- *Criminal investigators achieved an unprecedented \$791 million in monetary recoveries.*
- *Inspectors and special inquiries investigators responded to hundreds of requests for assistance and allegations of improper conduct.*

This office and the Service audit agencies continued to emphasize the importance of controlling funds and reporting on the financial status of the Department through the expenditure of about \$47.4 million and over 591 workyears to accomplish the FY 1993 financial statement audits required by the Chief Financial Officers Act of 1990. Although management is making progress in financial management systems and reporting, procedural and systems changes will be needed to ensure accounting systems are capable of producing timely and accurate financial statements. In addition, based on the overall DoD downsizing, it is important that every proposed construction project be reviewed to preclude unnecessary spending. Our auditors examined 84 base realignment and closure military construction projects and identified \$237 million in potential monetary benefits. A more detailed discussion of those and other significant issues is at pages i through v.

Other OIG, DoD, efforts achieved notable results. For example, through investigative emphasis in the health care area, several cases were concluded that resulted in significant monetary penalties imposed on entities and individuals who defrauded Government health insurance programs. A summary of the statistical accomplishments of the auditors, investigators and inspectors during the period is at page vi. Chapter 6 presents a brief summary of some of the more important matters affecting the Department that were brought to the attention of the Congress.

The Department's audit, inspection and investigative organizations will strive to ensure the integrity of the Department's management systems and personnel while looking for every opportunity to preserve resources and enhance military readiness.


Derek J. Wander Schaaf
Deputy Inspector General

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All pictures shown in this report are Department of Defense photographs.

SIGNIFICANT ISSUES

Chief Financial Officer Audits

Requirements

Recognizing the need for improvements in controlling funds and reporting the financial status of the Federal Government, significant actions have taken place that have increased our audit requirements. The Chief Financial Officers Act (CFO) of 1990 requires the preparation of audited financial statements for all revolving funds and accounts of commercial-type functions. In the DoD, that has required educating management in preparing financial statements in accordance with accepted accounting principles and training auditors to perform financial statement audits in accordance with Government auditing standards. The IG, DoD, and the Military Service audit agencies expended about \$47.4 million and over 591 workyears to accomplish the FY 1993 financial statement audits. The enactment of the Federal Financial Management Act of 1994 further expands the annual audit requirement.

Opinions Rendered

Only 1 of the 24 FY 1993 statements audited received an unqualified opinion. The others received qualified or adverse opinions or disclaimers. Those results were virtually identical to the previous audit opinions on the statements for FY 1992, although the FY 1993 audits covered a broader base.

Problems Found

Financial statements were generally not provided on a timely basis, and legal and management representation letters were not received for most funds. The DoD accounting systems are incompatible, frequently outmoded and often beset with problems; also, the systems were not designed to accumulate the information needed for financial statement reporting. Most systems do not use the DoD uniform chart of accounts or a standard general ledger. Instead, they use uniquely developed accounts and ledgers. Further, DoD agencies frequently do not adhere to acceptable accounting principles. The audits highlighted internal control weaknesses and noncompliance with laws and regulations. Management is actively working to improve the situation, and progress is evident in certain areas. However, it will be several more years before systems that are capable of producing timely and accurate financial statements are fully operational.

Computer Security

From 1992 to 1994, the IG, DoD, conducted a series of audits of controls for Defense computer systems. Material internal control weaknesses in computer security were identified at five computer centers supporting the Defense Finance and Accounting Service (DFAS). Specifically, controls were not adequate to prevent numerous deficiencies in operating system and security software and other general controls. As a result, knowledgeable users could access, create, modify or destroy sensitive computer data, programs and financial records without leaving an audit trail.

The audit results were briefed to the Senior Financial Management Oversight Council in March 1994. As a result of the audit findings, the DoD undertook a number of decisive initiatives to improve computer security. The Deputy Secretary of Defense approved the establishment of a task force to detect and prevent DoD financial fraud via computer. The joint initiative, "Operation Mongoose," is staffed by personnel from the DFAS, the Defense Manpower Data Center and the IG, DoD. The team will target areas for computer matches to identify trends and anomalies that indicate potential integrity breaches of DoD financial systems by employees, retirees, contractors and other unauthorized

individuals. Successful matches will be repeated routinely in the future as part of the DFAS internal management controls.

Also, in response to the audit reports, the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) directed the Defense Information Systems Agency (DISA) to establish an information systems security task force to enhance information systems security at all Defense megacenters and legacy sites. In addition, the Assistant Secretary and the Comptroller, DoD, directed the DISA and the DFAS to correct the deficiencies cited in the audit reports. The IG, DoD, was requested to monitor their progress.

The aggressive action taken by the Department to address the computer security problems reflects a commitment not only to fix the immediate problems identified by the audits, but to establish a series of long-term solutions to greatly reduce future vulnerability.

Debt Cancellation

A December 1993 IG, DoD, audit report "Payment Errors Related to Operations Desert Storm and Shield," highlighted problems in administering the provisions of the DoD Appropriations Act for Fiscal Year 1992. The Act permitted the Secretary of Defense to cancel any part of an indebtedness, up to \$2,500, that is or was owed to the United States by a member or former member of the uniformed services if the indebtedness was incurred in connection with Operations Desert Shield and Desert Storm. At one pay center, \$15 million out of \$20 million of debts were improperly cancelled or, if repaid, were not refunded properly pursuant to the established guidelines.

The Director, Defense Finance and Accounting Service (DFAS), generally agreed with the report but did not agree to reopen the cases. The Director, DFAS, stated that any effort to reconstruct debt cancellations at this time would not be practical, would require costly manual intervention and would exceed the likely savings. In addition, the Director, DFAS, indicated that, under current procedures, any member who continues to believe that he or she is entitled to a refund is encouraged to apply for one.

The auditors have worked closely over the past several months with management to assess the issues. The DFAS completed extensive cost analysis that showed it is not cost effective to pursue the debt for the combined population of in-Service and out-of-Service personnel. Both DFAS and we agreed that it would be inequitable to pursue debt collection only for in-Service personnel or for some other selected subset. The Federal Claims Collection Act, 31 U.S.C., amending Sections 3701, 3711 and 3716-3718, as implemented in Title 4 of the Code of Federal Regulations, authorizes the termination or nonpursuit of collection action when the cost of collection would exceed the amount recovered.

The DFAS has taken several initiatives to avoid similar problems during future quick mobilization and deployment scenarios. Although the OIG has not yet tested the efficacy of the new policies, doctrine and systems, we agree that the measures are significant improvements. In light of the provision in the Federal Claims Collection Act that authorizes the termination or nonpursuit of collection action when the cost of collection would exceed the amount recovered, and DFAS actions to avoid such problems in the future, it was agreed that in this instance additional collection action by the DoD would not be prudent.

Construction Management

Providing a well-maintained and modernized infrastructure, and balancing it with other readiness requirements, is a central issue in DoD planning. Insufficient infrastructure undermines readiness. Excess infrastructure has the same effect. To provide good facilities while avoiding unnecessary spending, the DoD must have a sound system of internal management controls for facilities planning.

The DoD has strengthened its review mechanisms for certain types of facility plans in direct response to our previous audit findings. However, even at the currently constrained levels of construction spending, we see a need to carefully assess every proposed project in the face of the overall DoD downsizing. The internal controls for the process are logical and complete on paper, but not always effective in actual operation. Based on the results of the audit work performed to date, we believe that the current processes definitely could be improved. Despite the 30-year old DoD requirement that all capital investment projects be justified on the basis of complete and thoroughly documented economic analyses, audits have consistently indicated that such analyses are frequently not done or are incomplete, outdated, poorly documented or otherwise flawed. Unrealistic assumptions go unchallenged or, in what may be the most likely scenario in this era of rapid downsizing, originally sound planning assumptions are overcome by events, but are not revisited after the project proposal goes forward.

Although managers agreed to improve internal controls after each series of audits, the actions that were taken have been largely ineffective. Paradoxically, the haste of base realignment and closure (BRAC) facilities planning seems to be a major contributor to questionable analyses and plans, whereas the drawn-out nature of regular facilities planning often leads to outdated, questionable assumptions in non-BRAC facilities plans. Original estimates are significantly understated virtually as often as they are overstated.

Our audits during this semiannual reporting period resulted in 11 final reports that covered 84 BRAC military construction projects totaling \$721 million. The auditors identified \$237 million in potential monetary benefits resulting from unsupported requirements or changes in relevant planning factors. Management generally agreed with the audit results and took action to modify project plans. In many instances, the release of funds was deferred.

There is no reason why questionable facilities planning needs to be an inevitable problem even in the BRAC process. Auditors have found a few instances where BRAC projects were very well planned and supported. For example, the auditors found that two projects valued at \$44.3 million for the realignment of the Defense Personnel Support Center (DPSC) in Philadelphia, Pennsylvania, were current, valid and properly documented, and existing facilities were considered when planning each project. The auditors commended the Defense Logistics Agency, the DPSC and the Naval Aviation Supply Office for doing an excellent job on the matter.

Fitzsimons Army Medical Center

In an IG, DoD, audit report issued in March 1994, "Medical Treatment Facility Requirements--Fitzsimons Army Medical Center (FAMC)," we recommended cancelling the project and reprogramming the remainder of the \$32 million appropriated so far by Congress. The Under Secretary of Defense for Acquisition and Technology nonconcurred with cancelling the project, but reduced the scope of the project from \$390 million in Military Construction funds to \$225 million. Management also agreed to reduce other funding by \$51.1 million. The Under Secretary also agreed to suspend the project until the effects of the Base Realignment and Closure process for FY 1995 and budget constraints are

known. Second, the Office of the Assistant Secretary of Defense for Health Affairs did not agree to include transportation costs in the cost-effectiveness analysis of transferring patients to another military treatment facility. Resolution of this matter has been deferred until the issuance of an audit report on aeromedical evacuation systems, which will provide additional information on the issue.

Section 2408 of the National Defense Authorization Act for FY 1995 required the Secretary of Defense to certify by March 15, 1995, that the replacement facility is needed if funds are requested for FY 1996. Section 2408 specified that the certification must address the issues raised in our audit report, including the cost effectiveness of building a replacement facility; the availability to, and cost for, the patient population of medical care provided by civilian medical facilities located in that area; the projected occupancy rates at FAMC with and without patients from outside the area; and the cost effectiveness and contribution of the Graduate Medical Education program at FAMC to meeting training requirements of Army military medical personnel. We are working with DoD management to address the certification requirements.

**Contractor
Restructuring
Costs**

In response to industry concerns regarding the downsizing of the Defense industry, the Under Secretary of Defense for Acquisition and Technology issued policy in July 1993 allowing restructuring costs on novated contracts if a merger or acquisition will result in overall savings to the Department or preserve the industrial base for weapons and supplies.

We reviewed the DoD efforts to examine one such future savings claim by Hughes Aircraft Corporation from its acquisition of General Dynamics missile programs. Hughes purchased General Dynamics in August 1992 and began billing restructuring costs to the Government without novating the contracts or executing an advance agreement addressing the increased costs and the savings to be realized by the Government. As a result of our review, a proposal depicting the restructuring costs and the corresponding savings to the Government was prepared by Hughes and audited by the Defense Contract Audit Agency. The Defense Contract Management Command is negotiating an advance agreement that will stipulate ceilings for restructuring costs and established targets for savings. We are currently monitoring 14 other Defense industry mergers and acquisitions to assure that proposals are prepared and audited and advance agreements are negotiated in a timely manner.

**Nonqualified Pension
Plans**

Legislation should be enacted to require consistency in the treatment of pension costs for Government contract costing purposes. Current procurement regulations subject nonqualified plans to less stringent cost allowability rules than qualified plans and other postretirement benefits. Consequently, millions of dollars can be paid into those plans and charged to Government contracts without adequate assurance that the Defense industry's most important assets, its employees, will ever be compensated. The funds can simply revert to the company as profit and/or bargaining chips in mergers and buyouts.

To be allowable as a charge to Government contracts, the costs of qualified plans and postretirement benefits must be paid either to an insurer or other recipient as current year premiums or benefits, or paid to a funding agency to establish and maintain a fund for the exclusive benefit of the beneficiaries. Under current acquisition regulations, costs calculated under nonqualified retirement plans need only be accrued in accounting records in order to be acceptable for

contract costing purposes. We recommend subsection (e)(1) of 10 U.S.C. 2324 be modified as follows:

2324. Allowable costs under Defense contracts

(e)(1) The following costs are not allowable under a covered contract:

(P) Costs for pensions and supplemental retirement benefits *except to the extent paid* either to (a) an insurer or other recipient as current year premiums or benefits, or (b) a funding agency to establish and maintain a fund for the exclusive benefit of the contractor's employees and their beneficiaries.

DEPARTMENT OF DEFENSE
SIGNIFICANT AUDIT INSPECTION AND INVESTIGATION RESULTS
(For the 6-Month Period Ending September 30, 1994)

STATISTICAL HIGHLIGHTS	Totals	Page
Audit Activities:		
Internal Audit Monetary Benefits:		
Potential Monetary Benefits Reported	\$7,936.8m	1-2
Impact of Completed Actions	3,902.9m	1-17
Potential Impact from Open Actions	11,113.0m	1-17
Contract Audit Monetary Benefits:		
Potential Monetary Benefits Reported	6,609.7m	2-3,2-6
Impact of Completed Actions	2,260.4m	2-3,2-6
Investigative Activities:		
Monetary Outcomes:		
To Government Entities	\$791.4m	3-9, E-1
Litigation Results:		
Indictments	447	3-9, E-1
Convictions	439	3-9, E-1
Civil Settlements/Judgments	53	3-9, E-1
Uniform Code of Military Justice Results:		
Charges	216	E-1
Convictions	417	E-1
Administrative Results:		
Debarments	153	3-9
Suspensions	158	3-9
DoD Hotline:		
Substantive Complaints	2,332	4-5

CHAPTER 1 - INTERNAL AUDITS

MAJOR CONCERNS

Internal auditors examine all facets of Defense operations and programs by performing audits and reviews that cover all the functional areas within the Department. While audits and reviews may be targeted to specific areas, such as the acquisition process or supply management, nearly every audit or review directly or indirectly impacts on the readiness of the military force or its equipment, as well as the support functions and operations that contribute to the overall readiness of the force. Some of the significant results achieved during the period are:

Financial Management

In the financial management area, there is still a need for improved fund control and financial reporting. The audit of the Air Force Merged Accounts Obligations (pg. 1-2) found that \$444 million, or 76 percent, of the unliquidated obligations reviewed were invalid. As a result, funds no longer needed for their intended purpose were not released for use on other programs. A Navy audit on Selected Unliquidated O&MN Marine Corps Obligations (pg. 1-3) found that over \$106 million of unliquidated obligations was not valid and should have been made available to satisfy other needs. Another Navy audit found that if unjustified Special Duty Assignment Pay (pg. 1-3) was eliminated, \$260.8 million could be put to better use.

Acquisition

The DoD, while in a period of declining budgets for acquiring and testing weapon systems, must ensure that systems are acquired in the most cost-effective manner. An audit found that the Army continued to develop the Advanced Field Artillery System (pg. 1-10), which was estimated to cost \$71.4 billion, despite its own analyses that questioned the system's force effectiveness and affordability. An Air Force audit found that over \$67 million could be saved if the requirement for F108 Spare Engines (pg. 1-12) was reduced.

Contract Management

Despite budget reductions, the DoD still processes millions of contract actions each year. An audit of "Super" Scientific, Engineering and Technical Assistance Contracts at the Ballistic Missile Defense Organization (pg. 1-4) found that contracting support costs could be reduced by \$46 million by gradually hiring DoD civilian employees to accomplish the mission in-house. In a similar finding, an Army audit of Test Support Contracting (pg. 1-4), identified \$57.7 million in potential savings if test activities used a less expensive in-house workforce instead of contractor personnel. In addition, an Air Force audit of Contracted Advisory and Assistance Services (pg. 1-5) found that by performing the work in-house, about \$42 million could be saved.

The DoD central internal audit organizations are the Office of the Assistant Inspector General for Auditing (OAIG-AUD), DoD, the Army Audit Agency(AAA), the Naval Audit Service (NAS) and the Air Force Audit Agency (AFAA). Audit topics are based on requests from DoD managers, the Congress and other Government agencies, statutory or regulatory requirements, Hotline complaints, and analyses of internal control risks and opportunities for improving economy and efficiency.

SIGNIFICANT CENTRAL AUDIT ACCOMPLISHMENTS

The DoD central audit organizations issued 308 centrally directed reports, identifying \$7.9 billion in potential monetary benefits. Appendix C lists the centrally directed reports issued.

Appendix D lists audit reports issued by the OIG, DoD, with quantifiable potential monetary benefits, in accordance with the Inspector General Act Amendments.

Financial and Personnel Management

Air Force Merged Accounts Obligations

This audit was requested by the Chairman, Senate Appropriation Committee. Of \$574.0 million in unliquidated obligations reviewed, \$444.0 million (76 percent) was deemed to be invalid. Accordingly, funds no longer needed for their intended purposes were not released for use on other programs, and financial reports were erroneous.

Two system program offices made advance payments to contractors for \$9.8 million for as yet unearned incentive fees, without complying with statutory and regulatory requirements. As a result, those prepayments were made improperly.

The auditors recommended developing a single paying and accounting system, rescinding the Under Secretary of Defense (Comptroller) staff previous approval of "budgeting lead-time away from need," making a policy regarding prepayment of incentive fees, reevaluating incentive fee payments of \$9.8 million and adopting an appropriate accounting alternative for unearned incentive fees. Management comments were responsive. (OAIG-AUD 94-139)

Cash Management Within the Defense Reutilization and Marketing Service

The Defense Finance and Accounting Service (DFAS)-Columbus retained \$30.5 million from pre-FY 1993 and FY 1993 sales in suspense accounts for extended periods rather than releasing the proceeds to other DoD accounts in a timely manner. As a result, the funds could not be used for operating purposes.

The auditors recommended closing pre-FY 1993 sales contracts and transferring the outstanding sales proceeds, depositing all sales proceeds generated from sales of scrap material, and reviewing and releasing FY 1993 sales proceeds to qualified recipients. Management comments were generally responsive; however, additional comments are requested on unresolved issues. (OAIG-AUD 94-158)

Management Data Used to Manage the U.S. Transportation Command and the Military Department Transportation Organizations

Critical transportation data needed to move cargo and bill customers were often unavailable, unreliable, inaccurate and therefore not useful. Shipping activities did not always comply with the Military Standard Transportation and Movement Procedures (MILSTAMP) used by the Military Traffic Management Command (MTMC) to move personnel, patients and cargo by Government or commercial transportation. As a result, the MTMC had to duplicate the efforts of shipping activities to ensure the prompt movement of cargo. As of September 30, 1993, \$33.9 million in unbilled accounts receivable for transportation services remained uncollected, and \$25.4 million in cargo billings remained suspended.

Data used to measure mission results through unit cost and net operating results were not reliable. Flying hours used in calculating unit cost were not accurate, and the Under Secretary of Defense (Comptroller) did not issue timely guidance for calculating the military personnel costs used in net operating results. As a result, the financial position of the components was not presented accurately.

The auditors' recommendations included strengthening internal controls at shipping activities and complying with MILSTAMP, providing the necessary resources for compliance with accounting and billing regulations, providing additional internal controls over flying hours data, requiring components to follow existing policy for calculating military personnel costs and establishing guidance on calculating military personnel costs for Defense Business Operations Fund before budget planning begins. Management comments were a mixture of concurrences and nonconcurrences, and additional responses were requested. (OAIG-AUD 94-163)

Third Party Collection Program

The Army medical department made substantial improvements in collecting from third party payers under the Third Party Collection Program. Collections increased from about \$7.8 million in fiscal year 1988 to more than \$53 million in fiscal year 1993. However, the medical department could take additional actions to increase collections and improve internal controls over funds collected.

The auditors recommended the Health Services Command develop standard policies and procedures for identifying, billing and collecting from third party payers; develop and use performance measures to evaluate the program; and furnish technical guidance for reconciling data bases in the automated management system and advise medical treatment facilities to perform the reconciliations. The command agreed. The official command-reply process has not been completed. (AAA WR 94-212)

Selected Unliquidated Operation and Maintenance (O&MN), Marine Corps Obligations

An audit evaluated the validity of unliquidated obligations at 41 Marine Corps activities. By sampling \$139.6 million of the \$580.4 million in unliquidated obligations, the auditors found \$62 million to be invalid. Using projections, the auditors estimated a total of \$189.3 million was invalid. The audit also found that \$106.1 million of the \$189.3 million was not available to satisfy other needs. If the condition remains unchecked, the Marine Corps will lose the use of another \$157.8 million over the 5-year period ending September 1998.

The Marine Corps initiated corrective action during the audit and implemented the audit recommendations. (NAVAUDSVC 050-W-94)

Special Duty Assignment Pay

Special Duty Assignment Pay (SDAP) is authorized for duties that are extremely difficult or involve an unusual degree of responsibility. Each Service secretary determines the skills that will receive SDAP. An audit found that 94 percent of SDAP billets were not properly justified in accordance with Navy policies, procedures and directives. The Bureau of Naval Personnel justified SDAP by Navy enlisted classification codes rather than

by actual duties performed. By eliminating unjustified SDAP, \$260.8 million could be put to better use, and if the DoD eliminated the requirement to pay SDAP at one-half rate for one more year until SDAP is terminated, \$23.7 million could be saved.

Although the Bureau of Naval Personnel took some corrective actions, major issues were undecided. The issues were redirected to the Assistant Secretary of the Navy (Manpower and Reserve Affairs) for comment. (NAVAUDSVC 062-C-94)

Readiness

Maintenance Float

An audit found that the Army could significantly reduce its operational readiness float program and still maintain equipment readiness. By reducing the program, the Army could cancel about \$780.2 million in future float acquisitions and use about \$194 million in existing float assets to fill other requirements. In addition, the Army needed to better manage and reduce its repair cycle float program. No recorded assets were on hand to support \$3.5 billion in repair cycle float requirements, and less than 1 percent of Army units needed repair cycle float assets to maintain readiness levels. Through better management and reduction of items, the Army could reduce planned acquisitions of float assets by about \$6.3 million.

The auditors recommended the Army reduce the operational float and repair cycle float programs to reflect only valid requirements, cancel planned acquisitions for float assets and redistribute existing float assets to satisfy other requirements. The command agreed with the recommendations and partially agreed with the estimated monetary benefits. The disagreements are being resolved through the official command-reply process. (AAA NR 94-221)

Naval Reserve Force (NAVRESFOR) Full-Time Support Personnel Requirements

The NAVRESFOR mission is to provide trained units and qualified personnel for active duty in the naval forces in time of war, in a national emergency or when otherwise authorized by law. An audit was conducted to determine if the organizational command structure was the most effective and efficient, if

requirements determination process resulted in valid full-time support billets, and if the NAVRESFOR had an effective system to validate full-time support personnel requirements periodically. The audit found that NAVRESFOR could improve efficiency and put \$134.5 million to better use over a 6-year period. Overall, 378 positions could be reprogrammed for other purposes. Also, the Navy could close 32 of its 216 surface reserve training centers and 3 of its 13 readiness commands.

The Commander, NAVRESFOR, agreed to take corrective action. (NAVAUDSVC 045-S-94)

Contract Administration

"Super" Scientific, Engineering and Technical Assistance contracts at the Ballistic Missile Defense Organization (BMDO)

The audit was requested by the Secretary of Defense at the suggestion of the Director, Defense Procurement. Contracting support costs could be reduced by about \$46 million for FYs 1995 through 1999 by gradually hiring DoD civilian employees to accomplish the mission in-house. The contracting officer did not establish adequate procedures for effective cost control and did not effectively manage the contract, resulting in a contract cost increase of about \$26.9 million. Questionable costs and fees of about \$2.3 million were paid under the contract.

The auditors recommended that the BMDO reduce contracted services and use more DoD civilian personnel, use completion and fixed-price type contracts, establish additional contract management and cost control procedures, perform cost realism analysis, justify contractor-acquired Government property, document contract changes and initiate action to recover questioned costs. The auditor also recommended that administrative contracting officers notify the contractors of noncompliance with applicable regulations. Management generally agreed with the recommendations. (OAI-AUD 94-077)

Procurement of Support Services by the Air Force Electronics Systems Center, (AFESC), Hanscom Air Force Base, MA

The AFESC procured contractor services that were not as cost effective as in-house

personnel and did not make cost adjustments when Government-furnished facilities were used. The support services had the characteristics of personnel services and resulted in contractor personnel performing inherently Governmental functions. In addition, inadequate management controls over the allocation of Technical Engineering and Management Support work requirements existed. The auditors estimated a potential savings of \$39 million if contracted work is performed in-house and \$26.5 million if costs are adjusted to reflect the use of Government-furnished facilities.

The auditors' recommendations included pursuing initiatives to capture and provide accountability for total force requirements in documents and identifying means for funding in-house support when performing long-term services, converting previously authorized contractor positions to in-house positions, determining in-house DoD personnel requirements and the cost effectiveness of contracting for support, and discontinuing the use of management support contracts to obtain personnel services. Management generally concurred, and one issue is being pursued through audit mediation. (OAI-AUD 94-112)

Test Support Contracting

An audit found that test activities used contractor personnel to support test programs instead of a less expensive in-house workforce because the activities were not allowed to exceed in-house space ceilings and contractor support gave them greater flexibility to meet workload fluctuations. Test costs were also increased because Army contracting personnel did not make large purchases of goods and services for the contractors, and test activities had not consolidated multiple contracts to the extent possible. The audit identified \$57.7 million in potential monetary benefits.

The auditors recommended the Army require its test activities that use contractors to develop:

- procedures to review test support contracts to determine if the contract support could be furnished at a lower cost using the Government work force;
- an acquisition plan to consolidate multiple test support requirements; and

- ° procedures to identify contractor requirements for purchases costing more than \$25,000.

The command agreed with the recommendations and the estimated potential monetary benefits. The official command-reply process has not been completed. (AAA WR 94-702)

Procurement Prices Paid on Missile Systems for Foreign Military Sales (FMS)

The Army did not negotiate Patriot missile contract prices for FMS customers that were fully comparable to prices negotiated for DoD customers. In addition, the Air Force did not report the appropriate contract prices for billing FMS customers for purchases of Sidewinder and Maverick missile systems. As a result, FMS customers paid more than DoD paid for its own purchases, and one FMS customer paid more than another for comparable purchases of Patriot missiles. Also, the Air Force overbilled FMS customers \$3.4 million and underbilled FMS customers \$3.5 million for Sidewinder and Maverick missile purchases.

The Military Departments did not accurately bill FMS customers for contractor and U.S. Government additive charges included in contract prices, resulting in overbillings of \$13.5 million and underbillings of \$2.0 million.



Sidewinder Missile

The Navy and the Air Force recouped more than appropriate in Special Defense Acquisition Fund (SDAF) investment costs for modifying Harpoon and Sidewinder missile systems for sales to FMS customers. In addition, the Air Force charged customers selling prices in excess of actual costs for Maverick missiles sold from the SDAF inventory. As a result, the Navy inappropriately charged 18 FMS customers \$2.5 million for the Harpoon missile system, and the Air Force overbilled FMS customers \$9.9 million for the Sidewinder missile system and \$1.9 million for the Maverick missile system.

The auditors' recommendations included verifying the accuracy of cost elements used to develop contract prices and establishing a time frame for validating the dollar amounts of negotiated cost elements; using contract documents to report contract prices to the Defense Finance and Accounting Service--Denver Center for billing customers; and disseminating pricing policy to exclude inappropriate cost elements from missile prices, eliminating the collection of the SDAF charges for the Standoff Land Attack Missile; and returning overbilled charges to customers' FMS Trust Fund accounts. Management comments were a mixture of concurrences and nonconcurrences, and additional comments are requested. (OAG-AUD 94-188)

Contracted Advisory and Assistance Services

The Air Force uses contracted advisory and assistance services (CAAS) to support management decision-making and the operation of management systems. An audit was conducted to determine whether the Space and Missile Systems Center (SMC) evaluated the cost-effectiveness of continuing the contracted effort versus performing the work in-house. The audit found the SMC plans to award three follow-on CAAS contracts were not cost-effective because Government personnel, if authorized and hired, could perform the work for less cost. Consequently, by using contractor personnel, the Air Force will pay about \$42 million more over the next 5 years to complete the work.

Although management agreed with the recommendations, they were unable to implement immediate corrective action due to current downsizing initiatives. Management agreed, however, to continue evaluating resource allocations to determine whether they

can authorize additional civilian positions. Management also agreed that potential savings may exist; however, they could not immediately identify specific amounts. (AFAA 94064002)

Intelligence and Security

Hotline Allegations Pertaining to Aerostat Operations

Logistical support for the Tethered Aerostat Radar System (TARS) was inadequate, and development of a replacement system was undertaken without proper acquisition planning. As a result, five TARS sites became nonoperational, the replacement system had design flaws that may preclude conceptual optimization, and certain fiscal directives were not followed.

The Contracting Officer's Technical Representative directed the destruction of the aerostat at High Rock, Bahamas, before completion of a repair-versus-replace analysis and an engineering assessment of the balloon's condition. As a result, the TARS will not be operational at that critical site to detect drug smuggling aircraft for more than 2 years.

The auditors' recommendations included establishing guidance to identify responsibilities in the development and operation of the TARS, developing procedures to improve accountability of the aerostat balloons, adjusting obligations of appropriated funds, and reviewing the actions of the responsible officials in the destruction of the High Rock aerostat. Management comments were partially responsive, and additional comments were requested. (OAIG-AUD 94-136)

Acquisition of the BLACKER and CANEWARE Communications Security Systems

The audit was conducted in response to a DoD Hotline allegation that the National Security Agency was developing duplicative communications security systems. The allegation was unsubstantiated, since valid requirements existed for both systems. However, managers did not follow DoD policies relating to system testing and logistics support planning during the development and acquisition of the BLACKER and CANEWARE communications security systems. The NSA managers initiated action to develop additional upgrades to the CANEWARE system and spent \$1

million on unneeded CANEWARE enhancements. Further, they did not consider BLACKER development and acquisition costs in determining the affordability of consolidating the Defense Data Network. Consequently, about \$6.9 million was spent needlessly.

The auditors recommended establishing procedures to increase coordination among the DoD components during the development of information security devices. The auditors also recommended that the cost of developing and acquiring information security systems be considered in affordability studies of communications systems. Management concurred with the recommendations. (OAIG-AUD 94-201)

Environment

Acquisition and Management of Ozone-Depleting Substances

The DoD is attempting to phase out harmful chemicals, but certain stocks will be needed to meet crucial operating and contingency requirements until substitutes are developed and phased in. The Army and the Air Force did not accurately estimate the substances needed for a Defense reserve. As a result, the Army overestimated the requirement by 99,867 pounds for one ozone-depleting substance, valued at \$1.2 million. The Air Force overestimated its requirement for five substances by 1,182,237 pounds, valued at \$14 million, and understated the requirements for three substances by 752,933 pounds, valued at \$8.9 million. Corrective actions taken by the Army and the Air Force during the audit eliminated the need for recommendations. (OAIG-AUD 94-178)

Hazardous Waste

An audit was conducted of the hazardous waste operations and emergency response programs at 10 Air Force installations. Over 10,500 equipment items on hand or on order support the installation programs. The audit found that installation managers did not fully implement the Occupational Safety and Health Administration (OSHA) planning and training requirements and did not maintain accountability and control over emergency response assets.

Four of the identified conditions increased the potential risk of emergency response delays, injury or property damage, liability claims and OSHA violations. For example, at eight installations, no prepared emergency action plans were prepared for post emergency response operations, and at least 4,199 of the 7,378 emergency response personnel were not trained at the required levels. Unauthorized equipment and vehicles were found at all 10 installations, and managers could not identify requirements for hazardous waste operations and emergency response equipment or vehicles.

Management concurred. Actions taken or planned were considered responsive. (AFAA 93052006)

Installations and Logistics

Central Distribution Center (CDC) Operations of the Defense Commissary Agency (DeCA)

The savings that were expected to result from the CDC concept did not materialize. Management did not negotiate and collect earned vendor discounts sufficient to offset the Center's operational costs. As much as \$15 million in annual appropriated fund support could be saved if DeCA negotiates and collects earned vendor discounts or uses alternatives to CDC delivery methods to stock its stores.

Accurate inventory information was not available to CDC personnel for reconciling, ordering and managing semiperishable and nonperishable resale items. As a result, inventory losses will not be readily identified, unnecessarily high prices could be paid and a potential for abuse exists.

The auditors recommended closing CDCs if alternative delivery methods can satisfy customer requirements, negotiating and collecting earned vendor discounts, collecting retroactively earned vendor discounts, establishing guidelines on negotiating earned vendor discount agreements, conducting periodic physical inventories, investigating significant inventory variances and enforcing stock ordering procedures. The Director, DeCA, agreed to close the CDCs. (OAIG-AUD 94-083)

Pricing for Defense Switched Network (DSN) Access Circuits

The Defense Information Systems Agency (DISA) did not identify significant cost reduction opportunities available pursuant to contractual arrangements established in the Defense Commercial Telecommunications Network contract for the acquisition of DSN access circuits. Lower prices available from other sources would have reduced the \$27.5 million annual recurring cost of DSN access service by \$10.3 million. In addition, a review of randomly selected circuits showed that \$3.1 million in accounts payable for leased circuits was overstated by \$117,871.

The auditors recommended that the DISA establish procedures to analyze contract pricing methods as a basis to negotiate with AT&T for cost reductions for DSN access circuits; correct programming weaknesses in the accounts payable system; establish procedures to verify the accurate transfer of pricing information; validate existing accounts payable; compute net variances associated with accounts payable liability discrepancies and either file a claim or reimburse the vendor, as appropriate. Management concurred with the findings and recommendations. (OAIG-AUD 94-097)

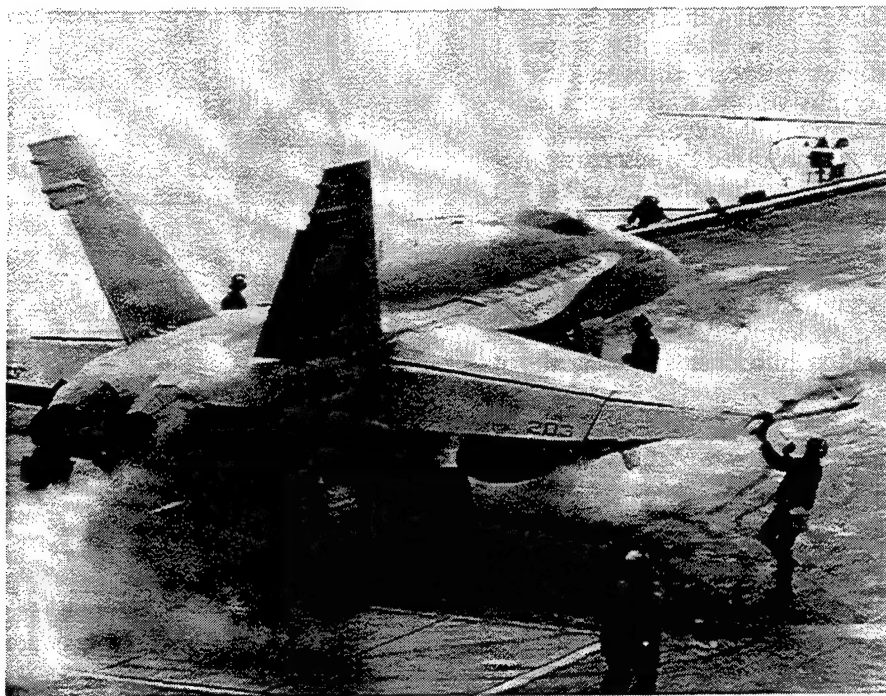
Obtaining the Maximum Life from F-404 Jet Engine Components

The Navy replaced F-404 life-limited engine components even though a 99.9 percent probability existed that the components had additional life remaining. We estimated that, by using an inspection program to manage the engines, the Navy could avoid the procurement of \$75.5 million of replacement components and achieve a net saving of \$52.4 million over the remaining life cycle of the F/A-18 aircraft (pictured on page 1-8).

The auditors recommended establishing a periodic inspections program to optimize engine component life and to ensure efficient use of resources. One disputed issue and potential monetary benefits are currently in audit mediation. (OAIG-AUD 94-133)

Air Clearance Process

During FY 1992, the DoD reported successfully challenging and downgrading cargo shipments to surface transportation and



F/A-18 Aircraft

realized a cost avoidances of \$49.3 million. However, during FY 1992, the DoD still expended about \$27.1 million more than necessary for cargo shipments to overseas destinations.

The auditors recommended amending the regulation to require payment of air transportation costs by shipping organizations on all shipments not submitted to the air clearance process. Management comments were not fully responsive and mediation is in progress. (OAIG-AUD 94-148)

Defense Base Realignment and Closure Budget Data for McGuire Air Force Base, New Jersey; Barksdale Air Force Base, Louisiana; and Fairchild Air Force Base, Washington

The Air Combat Command, the Air Mobility Command (AMC) and the Air Force Reserve could not support or justify base realignment and closure military construction requirements and costs for 15 of the 31 military construction projects associated with the closure of K.I. Sawyer Air Force Base. As a result, 12 of the 15 projects, valued at \$106.7 million, were based on unsupported requirements for \$104.7 million, and 3 of the 15 projects, valued at \$26.2 million, were completely unsupported.

The AMC could not justify the requirements for the construction and renovation of dormitories valued at \$28.8 million at McGuire Air Force Base. Also, nine renovation projects, valued at \$20.2 million, were overstated by \$14.7 million, and the remaining \$5.5 million was unsupported. In addition, the AMC lacked adequate data to support two planned family housing projects, valued at \$63.6 million.

The auditors' recommendations included cancelling and suspending base realignment and closure projects funding, as appropriate; implementing procedures to adequately validate the base realignment and closure estimates; suspending funding for McGuire Air Force Base dormitories and suspending plans to construct military family housing pending the results of a site survey and economic analysis at McGuire Air Force Base. The auditors worked closely with management to resolve the issues on each project, and numerous adjustments were made to the original facility plans. (OAIG-AUD 94-179)

United States-German Wartime Host Nation Support Agreement

Due to the severe restrictions on the host nation support to be provided in contingencies

not involving hostilities on German soil, the continuing need for the Agreement in its current form is questionable. Continuation of the Agreement will cost DoD at least \$290 million for FY 1995 through FY 2000. The costs include the operation and maintenance of the program and the procurement of materiel resulting from changes to the German Tables of Organization and Equipment.

The auditors recommended terminating the Military Implementing Technical Agreement, cancelling the related outstanding procurement actions and renegotiating support from the German armed forces. Management comments were generally responsive; however, additional comments are requested on some unresolved issues. (OAIG-AUD 94194)

Hotel Thayer, U.S. Military Academy, West Point, New York

The objectives of this congressionally requested audit were to determine whether the decision to contract for renovation, expansion and operation was appropriate; and to evaluate the solicitation and contractor selection process. The hotel needs renovation; however, the proposed renovation and expansion project exceeded the needs of the Academy and was based on overly optimistic financial projections. If the Army Community and Family Support Center awarded the proposed contract, the Army Morale, Welfare, and Recreation Fund would face a potential liability of \$48 million if the developer defaulted during or after construction. The audit showed that since reopening of competition as a result of the Army Review Board recommendation in 1990, appropriate evaluation and selection procedures were followed.

The auditors recommended cancelling the request for proposal to renovate, expand and operate Hotel Thayer or modify the request to eliminate or greatly reduce the risk to the Army Morale, Welfare, and Recreation Fund; and performing an in-depth analysis of other less-costly alternatives. Management nonconcurred, and additional comments were requested. Based on the report, the House Armed Services Committee disapproved the concept of a \$48 million guaranteed bond for the project. The House Armed Services Committee Morale, Welfare, and Recreation Panel has voted to approve no more than \$25 million in nonappropriated funds for renovation of the Thayer Hotel. (OAIG-AUD 94-196)

Repair Parts, Tools and Equipment

An audit found that III Corps and Fort Hood generally established effective procedures to control and stock repair parts and to acquire, account for and maintain tools and equipment. However, there was a need for more effective procedures to ensure proper stockage of repair parts for mission needs. The audit identified \$19.3 million in potential monetary benefits.

The auditors recommended:

- a demand analysis and a recomputation of all requisition objectives for shop stock and authorized stockage list repair parts;
- the elimination of requisitioning objectives for non-demand nonsupported repair parts for which the need cannot be verified; and
- periodic reviews to identify excess parts.

The command agreed with the recommendation and the potential monetary benefits. (AAA WR 94-6)

Family Housing and Allowances

An audit found the U.S. Army, Europe and Seventh Army adequately managed its family housing inventory to maintain the highest possible occupancy rates by military families. Procedures were effective for reducing the housing inventory as requirements for housing dropped. There was a need, however, to include civilian employees in the requirements computations to ensure the housing inventory was not reduced too much. Management of family housing furnishings and procedures and controls over quarters and allowances paid to civilian employees were inadequate. The audit identified about \$37.3 million in potential monetary benefits.

The auditors recommended that the command:

- allow civilians to occupy excess Government housing and include civilians authorized housing allowances in the requirements determinations;
- review the methods for calculating furnishing requirements; and
- comply with documentation requirements when paying housing allowances.

Management did not fully agree with the recommendations but agreed with the

potential monetary benefits. The disagreements are being resolved through the official command-reply process. (AAA NR 94-220)

Recoverable Engine Items

An audit was conducted to determine whether job routed recoverable engine items were effectively managed. The audit found that Air Logistics Center personnel did not repair engine components in accordance with the job routed concept for 37 of the 78 item reviewed. Based on a statistical sample, the auditors estimated that maintenance personnel requisitioned items worth \$6.7 million that could have been repaired under the job routed concept for \$3.4 million. Consequently, the Defense Business Operations Fund could unnecessarily spend at least \$16.9 million over the next 6 years to requisition items that could be repaired under the job routed concept.

Management agreed with the results, and actions planned were considered responsive. Management also agreed that potential monetary benefits may occur, but could not determine an amount until after corrective actions are taken. (AFAA 93062014)

Emergency Telephone Systems and 24-Hour Response Centers

An audit was conducted at 15 Air Force bases to evaluate the effectiveness and efficiency of emergency telephone systems and 24-hour response centers. Overall, the systems and centers were generally effective. However, opportunities exist to provide more economic and efficient service. Base commanders maintained separate emergency communication centers that were inefficient and duplicated emergency communication services. An estimated \$23.5 million could be saved over the 6-year defense plan if bases consolidated fire and security police communication centers. Further, base communication managers need to improve telephone communication services for effective emergency reporting. In addition, base hospitals provided emergency medical services after normal duty hours that unnecessarily duplicated potential capability within the fire protection services.

Management agreed with the findings, and planned corrective actions were considered responsive. Management deferred a decision on the \$23.5 million associated with consoli-

dating fire department and security police communication centers until the concept of operations is developed, a cost benefit analysis is accomplished and a test at a large and small base is complete. (AFAA 93054019)

Major Acquisition

Acquisition of the Advanced Field Artillery System (AFAS)

An audit using the Program Management Element audit approach identified the following deficiencies.

The Army was continuing the development of the AFAS and other major systems, which were estimated to cost \$71.4 billion, despite its own interactive multi-systems analyses that questioned the systems' contributions to total force effectiveness and affordability. As a result, the Army could incur substantial costs for systems that may not add significantly to total force effectiveness at projected funding levels.

The scope of the Cost and Operational Effectiveness Analysis (COEA) for the AFAS Program was limited. As a result, the COEA that was being developed will not provide the Defense Acquisition Board the information necessary to determine whether the program is the most cost and operationally effective solution to DoD deficiencies in artillery systems.

The auditors recommended that management improve the process for determining the force effectiveness and affordability of the Army's systems and determining the cost and operational effectiveness of the AFAS. Management nonconcurred, and additional comments were requested. (OAIG-AUD 94-111)

The Coordination of Quantitative Requirements for Anti-Armor Munitions

The Office of the Joint Chiefs of Staff initiative to develop a DoD Instruction that provides guidance to the Military Services for determining their munition requirements is commendable. The initiative stemmed from the use of inconsistent methods by the Military Services for determining their quantitative requirements. Specifically, the Military Services:

- used three different methods for determining quantitative requirements for munitions;
- incorporated inconsistent threat estimates into their processes for determining requirements for munitions;
- decided on their share of the threat targets with little, if any, coordination among themselves;
- applied different defeat criteria to specify the numbers of enemy systems that needed to be killed to achieve victory; and
- used inconsistent factors to account for enemy systems that would be damaged, subsequently repaired and returned to the battle. As a result, the accuracy of the quantitative requirements of the Military Services for munitions was questionable.

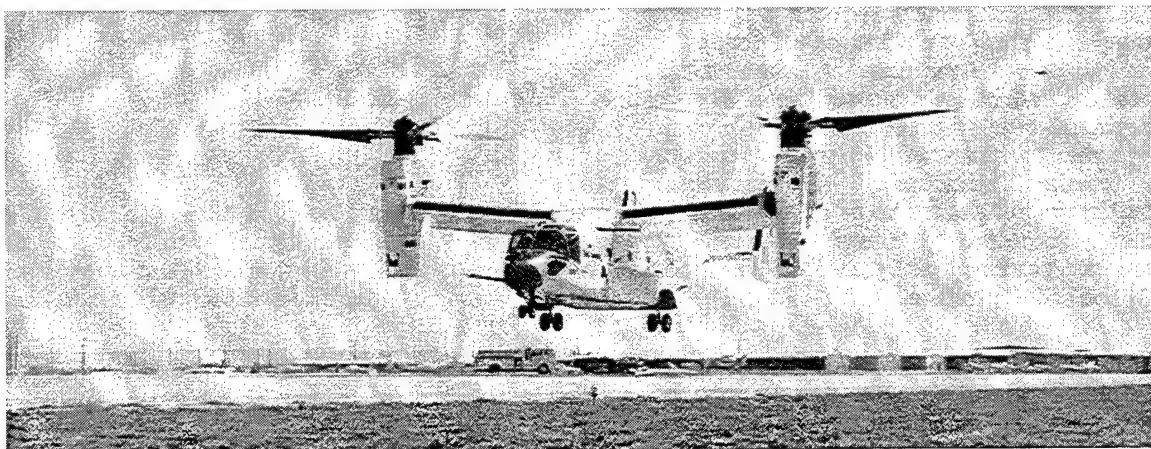
The auditors recommended that the proposed Instruction for determining quantitative requirements for munitions provide for criteria to guide the Military Services in their selection of a method for determining quantitative requirements for munitions and for the uses of threat estimates that are consistent among the Military Services, target shares that are coordinated among the Military Services, defeat criteria that are consistent for all Military Services, and factors that are consistent among the Military Services and validated by the Defense Intelligence Agency to account for the ability of an enemy to repair damaged systems and return them to the battle. Management comments were partially respon-

sive, and additional comments are requested. (OAIG-AUD 94-129)

Review of the V-22 Aircraft Program

The Program entered Engineering and Manufacturing Development (EMD) without proper authorization, a Defense Acquisition Board (DAB) review, a validated requirement or a valid acquisition program baseline. Also, the Navy made major program decisions without formal review by the OSD or documented approval by the Defense Acquisition Executive (DAE). Although the time allowed to prepare for the Milestone II-Plus DAB review was limited, documentation required by the DAE for the review was reasonable and the review had the potential to correct deficiencies noted in the report, including a lack of current program documentation. The DAE postponed and rescheduled the Milestone II-Plus review for September 1994.

The auditors initially recommended postponing definitization of the EMD contract and limiting obligation of contract funding to no more than the FY 1993 and prior appropriations until the DAB Milestone IIPlus review is held and the DAE chooses the V22 as the alternative to meet validated requirements. Management nonconcurred with the draft report recommendations; however, management proposed acceptable alternative corrective actions, and the IG, DoD, no longer questions definitizing the EMD contract. (OAIG-AUD 94-131)



V-22 Aircraft

DoD Acquisition Information Management

The DoD acquisition information management is fragmented among OSD and DoD components and by program acquisition categories. Periodic program performance measurement and status reporting is required only on major Defense acquisition programs. As a result, the OSD, the Military Departments and program executive officials relied excessively on program reviews and briefings instead of on a management information process. The process of identifying risks and implementing corrective actions is lengthened by using the current system; performance measurement and reporting are impeded.

The auditors recommended improving state of the art information management and data administration programs for the DoD acquisition system based on a single integrated information system and standardization of data elements. Management comments were generally responsive. (OAIG-AUD 94200)

F108 Spare Engines

A modernization program includes replacing engines on 400 KC-135A/E/Q aircraft with the more efficient and powerful F108 engine. The Air Force estimated 116 spare engines, costing approximately \$390.2 million, would be needed to support the fleet.

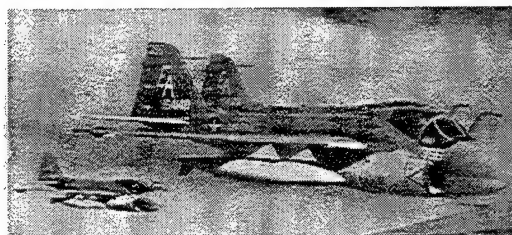
An audit found that management used an inflated unscheduled removal rate and improper peacetime safety levels to compute the requirement for 116 spares. As a result of the audit, management reduced the removal rate, corrected peacetime safety levels and recomputed the requirement. Although that action resulted in a net reduction of 27 spare engines, management did not properly compute wartime safety levels or correctly summarize the total spare engine requirement on the greater peacetime or wartime requirement. Therefore, a potential still exists to reduce requirements by another 20 engines valued at \$67.6 million.

Management agreed. Management actions taken or planned were considered responsive. While management reduced spare engine requirements by \$98.5 million during the audit, they could not validate the remaining \$67.5 million until corrective actions are complete. (AFAA 93061025)

Cargo and Tanker Aircraft Wartime Spare Engines

An audit was conducted to determine the accuracy of strategic airlift and tanker aircraft wartime spare engine requirements and associated war reserve spare parts requirements. The review found that strategic airlift and surveillance aircraft spare engine requirements were not accurate. Engine inventory managers used inaccurate engine removal rates, and operations and logistics planners provided unrealistic aircraft utilization rates to compute wartime spare engine requirements. Consequently, the existing number of C-5, C-141 and E-3 aircraft spare engines required to be kept serviceable and ready to meet wartime requirements was overstated by 228 engines. That resulted in \$128.9 million of unnecessary depot overhaul/repair requirements for fiscal years 1993-1999.

Management agreed. Actions taken and planned were considered responsive. Management could not validate the amount of actual savings until corrective actions are complete. (AFAA 92061008)



A-6E Intruders

Other Acquisition

Detecting and Ranging Sets for A-6E Aircraft

An audit was conducted to determine whether planned acquisitions of retrofit kits for the A-6E aircraft detecting and ranging sets were justified. The audit found that the Naval

Aviation Supply Office (ASO) did not cancel the retrofitting contract even though the contract was no longer beneficial. Cancelling the contract would make approximately \$36.4 million available for reuse.

In September 1993, the Secretary of Defense, agreed with the Navy plan to retire the entire fleet of A-6E aircraft by fiscal year 1999, and later in September 1993 the ASO terminated the retrofitting contract and reallocated nearly \$30.6 million for other needs. The ASO agreed that another \$5.8 million may be reallocated when negotiation of the contract termination is complete. (NAVAUDSVC 048-N-94)

Quick-Reaction Report on the Reliability of the M17 Series and M40 Chemical Protective Masks

This audit was the result of a Hotline complaint concerning the serviceability and integrity of fielded chemical protective masks. This report is the second of three from the audit. It addresses the need for soldiers to perform Preventive Maintenance Checks and Services (PMCS) properly and routinely on their masks and report any maintenance problems. The condition of the chemical protective masks could significantly hinder readiness for chemical and biological defense.

The auditors recommended testing of fielded masks and taking various measures to ensure that soldiers perform unit-level PMCS properly and routinely. Management comments were not fully responsive and additional comments are requested. (OAIG-AUD 94154)

Audit Policy and Oversight

The Office of the Assistant Inspector General for Audit Policy and Oversight provides policy for and oversight of the internal audit, internal review and nonappropriated fund audit activities within the DoD. The office also expended extensive efforts on planning, coordinating and providing technical assistance to the DoD audit organizations on the Chief Financial Officer's audit function; served as the focal point on matters related to the Federal Managers' Financial Integrity Act; served as the liaison to the President's Council on Integrity and Efficiency (PCIE); and managed the OIG, DoD, ethics program.

The following actions were accomplished during this period:

Report on the Oversight Review of Timeliness of Management Response to Draft Audit Reports or Tentative Findings (APO 94-010)

The objectives of the review were to determine the adequacy of policy and procedures of



Chemical Warfare Gear

the four DoD central internal audit organizations for obtaining management comments to draft audit reports or tentative findings for reports published during FY 1993, and the degree to which management provided prompt replies. Policies and procedures were adequate for obtaining management responses in a timely manner. The degree to which management responded promptly needed improvement. Of the 498 reports published, 170 were delayed because management did not observe deadlines for providing comments. Each audit organization needs to use the option of publishing reports without management comments when deadlines are not observed and there is no clear indication a response is in process.

Hotline Investigation - Kansas National Guard (APO 94-012)

A Hotline complaint resulted in allegations of mismanagement and waste of training funds by the Kansas Army National Guard (KARNG) at the end of FY 1993 and suppression of an Internal Review Report on the matter. We substantiated the allegation that waste of training funds likely occurred. That was reported in a "consulting report" prepared by the KARNG Internal Review Office. The report was only issued to the requestor, which probably led to the perception that the report was suppressed. The results were contained in the audit working papers, and there was no indication that the report had been modified in any way because of external pressure. Our report contains recommendations to the Chief, National Guard Bureau, regarding the release of the Internal Review "consulting report" and correction of the deficiencies that prompted the complaint.

Oversight Review of the Adequacy of Testing the Reliability of Computer Evidence in Audits (APO 94-013)

The review was undertaken to ensure auditors of the DoD internal audit organizations demonstrated a knowledge of professional auditing standards governing reliability assessments of computer-generated data and understood the process and decision points for conducting those assessments. We found that, for 30 audits evaluated, the auditors demonstrated a knowledge of professional auditing standards and generally understood the process and decision points for performing reliability assessments. We made no formal recommendations.

Continuing Review of Audit Reports Issued by the Army Audit Agency (APO 94-014), Naval Audit Service (APO 94-016) and the Air Force Audit Agency (APO 94-017)

The FY 1994 continuing review of the audit reports issued by the central internal audit organizations was examined to determine whether evaluations of internal controls were reported, to determine whether the underlying causes of deficiencies were identified and to assess the timeliness of completed audit reports. Generally, the Army Audit Agency report presentations were excellent for the areas covered by our review. Our examination was conducted on a desk review basis. We examined 25 of 56 formal audit reports issued by the Naval Audit Service. Information in the reports dealing with the audit criteria and entity was uniformly well presented. The readability and clarity of reports could be enhanced by improved presentation of objectives/conclusions. We desk reviewed 41 audit reports issued by the Air Force Audit Agency. Report presentations were generally excellent. We found one report lacked a conclusion for one announced objective, and three other reports lacked sufficient descriptive data to judge the relevance of the conditions reported.

Report on the External Quality Control Review of the Defense Intelligence Agency Inspector General Audit Organization (APO 94-015)

Objectives were to evaluate the adequacy of the adherence to applicable DoD and Government Auditing Standards in the area of independence, audit policies and procedures, annual audit planning, quality assurance, audit performance and training. The organization had established an efficient and effective internal audit program. Additional improvements could be implemented. Personnel practices were modified through the efforts of the audit organization, but it needed to request formally the elimination of potential impairments to independence. Report presentation and clarity, the completeness of working papers and modifying the timing of Individual Development Plan preparation needed improvement.

Chief Financial Officers Act

To assure consistency in examining and reporting on the review of financial statements, we participated in meetings with, and coordinated on, actions involving the General Accounting Office (GAO), the Under

Secretary of Defense (Comptroller) and the four DoD internal audit organizations. We prepared the response to the GAO on their review of the Air Force FY 1992 financial audits and also prepared comments for the Comptroller on draft form and content guidance to be followed in preparing financial statements. Discussions were held with Under Secretary of Defense (Comptroller) personnel to resolve policy differences on management representation letters and also with personnel from the Office of General Counsel to resolve issues relative to legal representation letters.

Analysis And Followup

The Assistant Inspector General for Analysis and Followup (AIG-AFU) provides policy for and oversight of the audit followup programs of the Military Departments and Defense Agencies.

All DoD components are now following congressional, OMB and DoD followup requirements. The DoD recognizes that constant emphasis on improvement is necessary in such a difficult, complex area, and the AIG-AFU continues to work with the components to improve practices and procedures for resolving disputed internal audit recommendations and documenting and verifying completed management actions.

INTERNAL AUDIT FOLLOWUP STATUS REPORT (Department of Defense)

This section implements the reporting requirement in the Inspector General Act Amendments of 1988 on the status of audit followup efforts.

The AIG-AFU and the Military Departments operate systems to ensure that an authoritative decision is made on what will be done in response to each audit finding and recommendation. Exhibits 1a and 1b (page 1-16) display the results of the process.

The DoD policy requires tracking every agreed-upon action until its completion is documented. Summary results in Exhibit 2 (page 1-17) reflect only agreed-upon, documentable monetary benefits. The OIG, DoD, cautions that quantifiable monetary benefits achieved through internal audits are but a partial measure of the audit program's impact. The majority of internal audit reports yield benefits that are not readily quantifiable, such as improved safety, internal controls, implementation of laws and regulations, readiness and organizational effectiveness.

EXTERNAL AUDIT FOLLOWUP STATUS REPORT (General Accounting Office)

The AIG-AFU performs the central liaison services for the DoD with the GAO. Services include staffing GAO announcements, resolving access to records problems, informing the Secretary of Defense and other DoD managers of GAO activity and ensuring prompt, explicit agency replies to GAO findings and recommendations. The AIG-AFU processes GAO announcements and draft or final reports. In addition to staffing GAO announcements and reports, the AIG-AFU tracks the status of agreed-upon DoD actions in response to GAO reports. The Department of Defense components reported the completion of action on 164 recommendations. Action on 159 agreed-upon recommendations was in progress as of September 30, 1994.

Considerable effort is made by the GAO and the DoD audit staffs to avoid duplication—a requirement of the Inspector General Act. To that end, the Congress is urged not to request GAO reviews that would overlap planned or ongoing audits by DoD internal auditors. The OIG, DoD, also recommends that requestors of GAO reviews allow the GAO to provide draft reports to the DoD for comment. That step is a normal and useful Government auditing standard that ensures better accuracy in the information provided to the Congress.

SIGNIFICANT INCOMPLETE CORRECTIVE ACTIONS

The DoD managers devote time and resources to implementing OIG, DoD and GAO recommendations. Hundreds of agreed-upon corrective actions are tracked by the AIG-AFU and are carried out in a timely manner, but instances of slippage or incomplete implementation do occur. For example:

Cross-Disbursement Accounting

The lack of uniform financial information and systems has caused serious problems in accounting for cross-disbursements, payments by one organization on behalf of another. Since the fall of 1990, the DoD has been working on the development of a single budget and accounting classification code structure to bring DoD accounting systems into uniformity and eliminate the major causes of cross-disbursement accounting problems. (GAO AFMD-91-9)

EXHIBIT 1a DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS (Dollar values in thousands)		
Status	Number	Questioned Costs
A. For which no management decision had been made by the beginning of the reporting period.	0	\$ 0
B. Which were issued during the reporting period.	2	12,418
Subtotals (A + B)	2	12,418
C. For which a management decision was made during the reporting period.	1	2,254
(i) dollar value of disallowed costs.		87
(ii) dollar value of costs not disallowed.		2,167 ²
D. For which no management decision has been made by the end of the reporting period.	1	10,164
Reports for which no management decision was made within 6 months of issue. ¹	0	0
¹ The Military Departments also report no undecided internal audit reports over 6 months old. ² On certain reports with audit estimated monetary benefits of \$1.6 million, it has been agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing.		

EXHIBIT 1b DECISION STATUS OF INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (Dollar values in thousands)		
Status	Number	Funds Put to Better Use
A. For which no management decision had been made by the beginning of the reporting period.	46	\$ 5,432,098
B. Which were issued during the reporting period.	126	4,495,254
Subtotals (A + B)	172	9,927,352
C. For which a management decision was made during the reporting period.	124	8,104,055
(i) dollar value of recommendations that were agreed to by management:		877,280
- based on proposed management action.		877,280
- based on proposed legislative action.		0
(ii) dollar value of recommendations that were not agreed to by management.		7,226,775 ¹ *
D. For which no management decision has been made by the end of the reporting period.	48	1,823,297
Reports for which no management decision was made within 6 months of issue. ²	0	0
¹ On certain reports with audit estimated monetary benefits of \$966 million, it has been agreed that the resulting monetary benefits can only be estimated after completion of management action, which is ongoing. ² The Military Departments also report no undecided internal audit reports over 6 months old. *OIG Report 94-019, DDG-51 Destroyer, December 10, 1993, accounted for \$4.3 billion of the amount.		

EXHIBIT 2
STATUS OF ACTION ON CENTRAL INTERNAL AUDITS

Status of Action	Number of Reports	Questioned Costs ¹	Funds Put to Better Use
IG, DoD			
Action in Progress - Beginning of Period	178	9,543	\$4,432,171
Action Decided - During Period	125	87	877,280
Action Completed - During Period	110	2,150	1,157,503
Action in Progress - End of Period	193	2,433	3,744,973
Military Departments			
Action in Progress - Beginning of Period	441	--	9,604,141
Action Decided - During Period	168	--	1,012,345
Action Completed - During Period	200	--	2,743,292
Action in Progress - End of Period	409	--	7,365,577

¹None of the questioned costs involve unsupported costs.

International Cooperative Research and Development (ICR&D)

The Military Departments and Defense Agencies had not pursued ICR&D programs, which can reduce duplication of weapons R&D and enhance interoperability and standardization. The Office of the Secretary of Defense had not centralized authority and responsibility for ICR&D. The DoD regulation that provides guidance for the establishment and management of ICR&D programs, previously recommended for update by prior audits, has been under revision for over 4 years.

In June 1993, the Deputy Secretary of Defense established the Armaments Cooperation Steering Committee, chaired by the Under Secretary of Defense for Acquisition and Technology, to provide oversight and to assure appropriate priority for armaments cooperation activities, as well as to resolve internal disputes concerning ICR&D. The Committee concluded that issuance of the ICR&D regulation would be premature and that guidance would be issued on an interim basis as it is developed. New procedures are expected to be developed by year end and implemented by mid-1995. (OAIG-AUD 93-009)

Possible Violations of the Anti-deficiency Act in the C-17 Program

The audit questioned the use of procurement funds to finance sustaining engineering costs that were actually development costs. Accounting changes were made inappropriately that resulted in additional Government financing. Those changes may have also resulted in violations of the Antideficiency Act and the

use of funds for other than their intended purpose. The questioned accounting changes were reversed, and an investigation to determine if the changes resulted in violation of law continues. (OAIG-AUD 92-046)

Supply System Management

In August 1993, the Army agreed to issue detailed guidance for the purchase of additive requirements, establish critical elements for item managers and supervisors that contained measurable performance standards for evaluation of purchase decisions, and institute assessment of purchase decisions and their review as a part of each National Inventory Control Point (NICP) total quality management program.

To date, two of the NCIPs have not issued local guidance for additive requirements determination, five of the NICPs have not been able to provide documentation for item manager/supervisor critical elements for measurable performance standards for purchase decision making, and three have not instituted any assessment of purchase decisions as a part of their total quality management programs. (OAIG-AUD 93-064)

Hazards of Kevlar®

Kevlar is one of the Army aviation community's most frequently used advanced composite materials. However, Army repair and disposal operations involving Kevlar are endangering personnel and threatening the environment. Since 1992, the Army has taken several steps to improve the guidance available concerning the health and safety procedures needed

during repair of components made of Kevlar. Action to incorporate such guidance into appropriate technical manuals has been pending, however, since April 1993. A milestone plan for completing the required manual revisions was not available until August 1994. It projects that all revisions will be completed by September 1995. (OAIG-AUD 92-103)

Environmental Policy and Compliance

Problems with the DoD management of nuclear waste disposal and underground storage tanks have been repeatedly identified. Problems were also identified with the Defense Environmental Restoration Program and implementation of DoD environmental compliance assessment programs. The DoD agreed to publish policies and procedures and to ensure compliance. The policies, procedures and compliance requirements were being incorporated into a single DoD environmental directive and instruction. Further slippage has occurred, and publication of both the environmental directive and instruction have slipped into FY 1995. Recoordination of DoD Directive 5100.50, "Protection and Enhancement of Environmental Quality," was initiated March 18, 1994. The plan for a consolidated environmental instruction has been dropped. A series of individual instructions will be issued. Issuance of the directive is now anticipated during the first quarter of FY 1995. Follow-on instructions are projected for completion by December 1994. (OAIG-AUD 92-011, GAO RCED-90-96, GAO NSIAD 92-117)

Procurement of Services by Inter-agency Agreements Under the Economy Act

The OIG, DoD conducted several audits that evaluated DoD acquisition of supplies and services by interagency agreements under the Economy Act. The DoD used the interagency agreements and orders to obtain contracting support from the Tennessee Valley Authority and the Department of Energy. The audits disclosed that DoD did not establish adequate controls over Economy Act orders issued for goods and services. The OIG recommended that DoD establish procedures to prevent the use of Economy Act orders to circumvent acquisition laws, to define requirements for Federal information processing resources, to establish a tracking system for the orders, and to establish controls over classified information.

In response to OIG Report No. 92-069, on January 23, 1992, the Director, Defense Procurement, asked the Defense Acquisition Regulation (DAR) Council to develop and issue appropriate changes to the Federal Acquisition Regulation (FAR) and the

Defense Federal Acquisition Regulation Supplement (DFARS) to implement the report recommendations. The DAR Council developed and promulgated revisions to the FAR and DFARS. On February 8, 1994, in response to more recent OIG reports on the same subject, the Secretary of Defense issued a policy statement on the use of orders under the Economy Act.

The Secretary directed the Under Secretary of Defense for Acquisition and Technology (USD (A&T)) to reissue DoD Instruction 4000.19, "Interservice, Interdepartmental, and Interagency Support," to incorporate the policy statement. The Instruction will also establish the requirement for a tracking system to report, on an annual basis, the number and associated dollars of Economy Act orders released outside of DoD. A working group of OSD, Service and agency representatives was established to revise the DoD Instruction. The working group plans to have a draft ready for coordination in October 1994. A process to track Economy Act orders is being developed. The USD(A&T) was also directed to modify the DFARS to define the role of the contracting officer in the approval process for Economy Act orders. (OAIG-AUD 92-069, 93-042, 93-068 and 94-008)

Audit Annex Agreements with Foreign Countries

In March 1990, agreement was reached on several disputed issues related to reciprocal audit annexes with foreign countries. The Director, Defense Procurement, will include several provisions in newly negotiated agreements governing audit annexes. Signed agreements with The Netherlands, United Kingdom and Germany include the revised provisions. Negotiations between France and the United States were concluded in June 1993; final action is dependent on resolution of translation differences. The Office of the Director, Defense Procurement, is also renegotiating the Canadian procurement agreement to incorporate recommended changes. A draft U.S.-Canada Memorandum of Understanding was presented to the Canadian Government in June 1994; Canadian review of the draft Memorandum of Understanding and follow-on negotiations are projected to continue until the end of 1995. (OAIG-AUD 89-090)

Government Property

In March 1991, the Office of the Deputy Comptroller (Management Systems) issued the revised DoD 7200.10-M, "Department of Defense Accounting and Reporting for Government Property Lost, Damaged or Destroyed," to require the assess-

ment of financial liability when Government property is lost, damaged or destroyed as a result of simple negligence. A July 1992 followup review revealed that the Navy failed to issue policy and procedures to implement the revised DoD 7200.10-M. The Army, the Air Force and the DLA issued implementing guidance. Staff efforts to resolve the lack of Navy implementation were unsuccessful, and the compliance issue was elevated by the Deputy Inspector General in a decision memorandum to the Deputy Secretary of Defense.

The Office of General Counsel (OGC), DoD, reviewed the January 4, 1993 Deputy Inspector General decision memorandum to the Deputy Secretary of Defense and concluded that legal basis did not exist to compel the Navy to proceed with implementation of DoD 7200.10-M. In accord with the OGC, DoD opinion, the Deputy IG requested the Under Secretary of Defense (Comptroller) to draft the necessary regulation or other appropriate policy issuance for Secretary of Defense signature to require that all military personnel and DoD civilians be held financially liable when Government property is lost, damaged or destroyed due to simple negligence.

The DoD Directive 7200.11, "Liability for Government Property Lost, Damaged or Destroyed," October 26, 1993, establishes the property liability policy and authorizes the publication of implementing procedures. The current projected publication date for implementing procedures is December 1994. (OAIG-AUD 84-061)

Government-Furnished Property Plant Clearance

Excess Government-owned property at contractor locations was not properly screened for reutilization through the Contractor Inventory Redistribution System (CIRS). The Office of the Assistant Secretary of Defense (Production and Logistics) projected the December 1991 implementation of an agreed-upon automated plant clearance reutilization process for reporting excess property at contractor locations to facilitate the identification and recovery of property by the Integrated Material Managers. The Defense Contract Management Command (DMDC) was applying the resources necessary to complete implementation of the Plant Clearance Automated Reutilization Screening System (PCARSS). The DCMC had initiated action to contract out the remaining development and deployment of PCARSS; however, the DLA Information Services Office is now completing development. Initial operating capability is now projected for September 1995. (OAIG-AUD 90-043)

William Langer Jewel Bearing Plant

The audit was conducted to verify new information provided in the final management comments to OIG Report 91-029. The follow-on audit confirmed the prior finding that there is no military requirement for the quantities of jewel bearings in the order of magnitude produced by the William Langer Jewel Bearing Plant and stockpiled by DoD. Also, the follow-on audit substantiated the auditors' position that the Plant's dosimeter operations should not be managed by the DoD. The Office of the Under Secretary of Defense (Acquisition and Technology) generally agreed but noted that a final position on procedures for establishing jewel bearing requirements and disposition of the plant would be determined upon completion of the Institute for Defense Analyses (IDA) review of jewel bearing requirements. The IDA study of National Defense Stockpile requirements for jewel bearings has been completed. The Office of the Assistant Secretary of Defense for Economic Security accepted the major conclusions of the study that there is no longer a need to stockpile jewel bearings or maintain Federal Acquisition Regulation (FAR) provisions requiring the Federal Government contractors to purchase jewel bearings from the plant. Action has been initiated to expedite disposal of the plant and delete the applicable FAR provisions. Also, action has been initiated to terminate management of dosimeter production at the Langer facility by April 1, 1995. (OAIG-AUD 91-029A)

Undergraduate Pilot Training

The Navy requirement for helicopter pilots to receive fixed-wing training before receiving undergraduate helicopter pilot training (UHPT) is not cost-effective or efficient. Relocating the Navy's UHPT program with the Army program at Fort Rucker, Alabama, would eliminate inefficiencies. In September 1992, the Deputy Inspector General and the Assistant Secretary of Defense (Force Management and Personnel) (ASD(FM&P)) agreed to evaluate two Defense Management Review proposals related to the issues. The ASD(FM&P) issued the study report to the Deputy Secretary of Defense for decision on December 31, 1992. The report recommended relocation of Navy UHPT to Fort Rucker, with the goal of closing an existing aviation training base, and eliminating the use of fixed-wing training to select helicopter student pilots to be implemented in conjunction with the Joint Primary Aircraft Training System program. The recommendations were not acted on by the prior Administration.

Subsequently, in conjunction with his review of the Joint Chiefs of Staff Roles and Mission Report in April 1993, the Secretary of Defense directed the Navy to

lead a study on consolidating UHPT at Fort Rucker. The Secretary also directed the Military Services to consolidate initial fixed-wing training, transition to a common primary trainer aircraft and provide an implementation plan within 60 days.

In May 1993, the Deputy Secretary of Defense directed that both actions address the issue of using fixed-wing training to select and train Navy and Marine Corps potential helicopter pilots. A report on joint fixed-wing training was issued in July 1993. The Navy has not yet issued the UHPT study. A Joint Undergraduate Pilot Training Group is evaluating the potential for conducting all UHPT operations at a single site as part of the Base Realignment and Closure Commission process. (OAIG-AUD 92-063)

Department of Veterans Affairs (VA)/Department of Defense (DoD) Medical Resources Sharing

A 1988 GAO audit identified three major DoD policy deficiencies that resulted in disincentives to VA/DoD medical resources sharing. A 1992 followup review determined that those deficiencies had not been fully corrected. The GAO found a lack of awareness of flexibility to negotiate rates lower than total costs. The Office of the Assistant Secretary of Defense (Health Affairs) (OASD(HA)) guidance was issued in 1989 but was never formalized. Review found that a need still exists for policy on reimbursement rate methodology, as well as overall program guidance. The DoD budget and accounting procedures on retention of VA/DoD sharing funds by military treatment facilities (MTF), identified by the GAO as a major sharing disincentive, were found still in effect. The GAO also found that legislation was needed to authorize the DoD to use CHAMPUS funds for DoD beneficiary care at the VA. The followup review found that DoD received the authority from Congress in 1990, but has not yet issued required guidance to allow CHAMPUS payments to the VA.

The OASD(HA) plans to issue reimbursement policy guidance have been delayed pending the completion of a functional process improvement analysis of VA/DoD sharing. A Memorandum of Understanding enabling VA medical centers to treat CHAMPUS beneficiaries and enabling the DoD to reimburse with CHAMPUS funds was signed in February 1994. The Memorandum of Understanding has been implemented at a prototype site; further proliferation is awaiting evaluation of test results. Publication of a comprehensive DoD Instruction on the VA/DoD sharing program has been delayed by the functional process improvement analysis; a draft is now projected for the first quarter of FY 1995. The DoD accounting policies that limited MTF sharing

funds retention will be impacted by legislation enacted in November 1993 enabling MTFs to retain all medical care collections. The DoD implementation of the legislation is expected shortly. (OAIG-AFU 92-03, GAO HRD-88-51)

Primary Care for Uniformed Services (PRIMUS) and Navy Cares (NAVCARE) Program

The PRIMUS and NAVCARE Program objectives were not formalized, consistent, monitored, or fully compliant with congressional mandate. The DoD should establish DoD-wide objectives and goals for PRIMUS and NAVCARE clinics and a DoD-wide program tracking system. The DoD actions to formulate policy on PRIMUS/NAVCARE clinics have been impacted by congressional direction to implement a nationwide managed care program. The implementation of the DoD TRICARE program, which includes capitation budgeting and at-risk managed care support contracts, will eliminate the need for PRIMUS/NAVCARE. However, because the program has become popular with the beneficiary population, the DoD is obligated to retain PRIMUS/NAVCARE until other alternatives for care under the TRICARE umbrella are available. The OASD(HA) is currently developing guidelines for Military Treatment Facility commanders where PRIMUS/NAVCARE clinics are still operational and a regulation that will establish the proper legal foundation for the continuation of the program. The regulation is projected for completion in early 1995. A moratorium on establishing new clinics is still in effect. (OAIG-AUD 90-012)

Army Asset Accounting

The Army's financial management systems and internal controls were not sufficient to provide reliable and adequate financial information to effectively manage its diverse and complex operations. The Army has widespread and serious weaknesses in the systems that account for and control its reported \$346 billion in assets. The Army lacks full disclosure of all the production costs for ammunition. Wall-to-wall inventories, in conjunction with the introduction of the standard depot system to correct the ammunition accountability problems, are on hold due to lack of funding. Those weaknesses leave the Army without adequate assurance that many of its assets are safeguarded against waste, inefficiencies and losses. Although the Army has been working on accounting systems improvements since at least 1983, current operations and systems still do not provide reliable financial data. The Chief Financial Officer's 5-year plan had a target date of October 1997 for implemen-

tation of integrated, enhanced financial and nonfinancial feeder systems. (GAO AFMD 92-57 and GAO AFMD 92-82)

Army Warranty Programs

A 1989 OIG, DoD, audit recommended that the Army establish policy to preclude conflicting contract warranty clauses, and to determine the Government's ability to meet warranty requirements before including them in warranty clauses. A subsequent 1990 audit recommended that the Army complete ongoing action to clarify policy on warranty issues and outline basic cost-effectiveness considerations for threshold-type warranties. The Army agreed to include the guidance in a revised Army regulation initially targeted for completion in early 1990. Publication has now been delayed more than 4 years. The last projected publication date was October 15, 1994, but the regulation remains unpublished. (OAIG-AUD 89-103, 90-002)

Aerial Target Systems

The OSD did not require that the Military Services validate the extent aerial targets replicated threat missiles and aircraft and quantify target limitations. As a result, the Military Services could not fully assess the development or performance progress of many weapon systems, and weapon performance limits could go undetected until deployment. To correct those deficiencies, the Office of the Director of Defense Research and Engineering agreed to publish DoD guidelines on target validation by August 1992. Action was delayed, however, by the creation of a new Joint Targets Oversight Council (JTOC). In addition, it was determined that each Military Service should develop a validation program for its own targets and that the planned DoD-wide program would apply only to joint targets. Current plans call for both the Military Service and joint programs to be approved by early 1995. (OAIG-AUD 92-020)

Army Pamphlet on Acquisition Procedures

The Army needs to publish a pamphlet on acquisition procedures. The pamphlet will complete Army actions on OIG, DoD, recommendations involving parts control (standardization) and component breakout that were made in 1989 and 1990, respectively. Recommendations from a more recent report involving the acquisition lessons-learned program will also be implemented by the pamphlet. Staffing of the document has been completed, but publication is not expected until early 1995. (OAIG-AUD 90-002, 91-018, and 93-073)

Financial Management Controls Over Progress Payments

As a result of poor financial controls identified in an audit of the Titan IV program, the Comptroller, DoD, and the Director, Defense Procurement, are developing procedures to improve controls over progress payments. The procedures will assure that progress payments are paid from appropriations representing the type of contract effort performed on multiple appropriation funded contracts. That long-term effort will permit progress payment disbursements to be recorded at the contract line and subline level and will improve financial accountability controls over contract funding and disbursements. (OIG Reports No. 92-064 and 93-084)

Competitive Procurement of Hover Infrared Suppression System (HIRSS) Core Kits

The Hover Infrared Suppression System (HIRSS) core kits were not competitively procured, as prescribed by the Competition in Contracting Act of 1984 and DoD Directive 4245.9, "Competitive Acquisition." Failure to take timely action to develop a competitive technical data package resulted in a lost opportunity for the Army to realize about \$18.3 million in savings. In December 1991, the Army agreed to immediately begin the process to procure all remaining HIRSS requirements on a competitive basis. To date, the Army has still not issued a competitive solicitation for the HIRSS core kits. In the meantime, the Army made two piecemeal procurements and advised on October 7, 1994, that the planned competitive award of the HIRSS core kits was cancelled in September 1994 due to deficiencies in the technical data package. A new competitive solicitation is projected for award in November 1994. In the interim, a limited emergency buy will be conducted to purchase the minimum number of kits needed to support the Black Hawk retrofit effort and production line. The issue has been elevated for attention by the Assistant Secretary of the Army (Research, Development and Acquisition). (OAIG-AUD 91-117)

In response to the Inspector General Act Amendments of 1988, Exhibit 3, pages 22 to 33, lists OIG, DoD, audit reports for which action has been ongoing for a year or more after managers agreed to take action.

EXHIBIT 3
STATUS OF OIG, DoD REPORTS OVER 12 MONTHS OLD
WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
84-061 Hand Tools and Portable Power Tools	4/20/84			2	OUS(D)
87-223 Assignment of Demilitarization Codes to Munitions List Items	8/20/87			2	AF
89-051 Management of Shelf-Life Items	2/1/89			2	Army
89-057 Wargaming Activities in the DoD	3/14/89			2	USD(A&T)
89-090 Field Pricing Support and Post-award Audits of Contracts with Foreign Companies	7/6/89			2	USD(A&T)
89-103 Acquisition of the Patriot Missile System	8/28/89			2	Army
90-001 User Charges and Resource Man- agement at Major Range and Test Facilities	10/6/89			2	USD(A&T), Navy
90-002 Acquisition of the M9 Armored Combat Earthmover Program	10/6/89			2	Army
90-012 Primary Care for the Uniformed Services and Navy Cares Program	12/6/89			2	HA
90-043 Plant Clearance Action on Government- owned Property in the Possession of Defense Contractors	3/2/90		\$17,300	2	USD(A&T), DLA

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(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
90-049 Secure Terminal Unit-III Program	3/20/90			2	C ³ I
90-074 Reserve Components Common Personnel Data System	5/25/90		\$25,000	2	USD(P&R), Army
90-081 Depot Maintenance Work Load Management	6/7/90			2	Army
91-018 Component Breakout Program for Major Systems	12/5/90			2	Army
91-029A (Supplement to Audit 91-029) Utilization of the William Langer Jewel Bearing Plant	8/31/92			2	USD(A&T)
91-035 Contractor Rental of DoD Plant Equipment at Textron Lycoming, Stratford Division	1/28/91			2	USD(A&T)
91-041 Contracted Advisory and Assistance Services Contracts	2/1/91			2	USD(A&T)
91-055 Pricing and Billing of Stinger Missiles Sold to Foreign Military Sales Customers	2/27/91			2	OUSDC(C)
91-067 Budgeting for Secondary Supply Items by the Military Departments	3/20/91			2	USD(A&T)
91-093 Inventory Controls of Stinger Missiles	6/13/91			2	Navy
91-105 Civilian Contractor Overseas Support During Hostilities	6/26/91			2	USD(P&R)

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WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
91-117 Hotline Allegations for the Hover Infrared Suppression System for the UH-60 Black Hawk Helicopter	9/6/91			2	Army
91-124 DoD's Support to U.S. Drug Interdiction Efforts	9/30/91			2	USD(P&R)
92-006 DoD Leasing of Family Housing	10/16/91			2	OUSD(C)
92-010 Consulting Services	10/30/91			2	USD(A&T)
92-011 Environmental Compliance Assessment Programs	11/8/91			2	USD(A&T)
92-012 Administration of Contract Terminations for Convenience	11/13/91			2	DLA, USD(A&T)
92-014 Pacific Theater Air Defense Activities	11/19/91			1	C ³ I, AF
92-020 Aerial Target Systems	12/13/91			2	USD(A&T)
92-029 Capability of Reserve Components Intelligence Units to Satisfy Wartime Requirements	12/23/91			1	Army
92-039 Construction of Nellis Air Force Base, Nevada, Hospital	1/30/92			2	HA
92-046 Contractor Accounting Practice Changes for C-17 Engineering Costs	2/13/92			2	USD(A&T), DCAA

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WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
92-048 Undefinitized Contractual Actions	2/14/92			2	USD(A&T), Army, Navy, DLA
92-053 Contractor Recommendations for Spares Provisioning of the F/A-18 C/D Aircraft	2/21/92			2	Navy
92-063 Acquisition of Common Aircraft for Navy and Air Force Undergraduate Pilot Training	3/27/92		\$3,500,000	2	AF, USD(P&R)
92-064 Titan IV Program	3/31/92			2	OUUSD(C), USD(A&T), AF
92-068 Civil Reserve Air Fleet	4/3/92			2	TRANSCOM
92-069 Quick-Reaction Report on DoD Procurements Through the Tennessee Valley Authority	4/3/92			1	USD(A&T)
92-077 Software Development at Central Design Activities	4/17/92			2	C ³ I, AF
92-078 DoD Base Realignment and Closure	4/17/92			2	Navy
92-090 Impact of Fluctuating Foreign Exchange Rates on Contract Prices	5/14/92			1	USD(A&T)
92-099 Quality Assurance Actions Resulting From Electronic Component Screening	6/8/92			1	USD(A&T), DLA
92-100 Medical Disability Discharge Procedures	6/8/92		\$758,400	2	HA

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WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
92-103 Quick-Reaction Report on Army Repair of Components Made of Kevlar and Disposal of Materials Used During Kevlar Repairs	6/17/92			2	Army
92-107 Effectiveness of DoD Use of Nondevelopmental Items in Major Defense Acquisition Programs	6/22/92			1	USD(A&T)
92-108 Accessorial Charges Applied to Foreign Military Sales	6/26/92			2	AF
92-116 Naval Reserve Reinforcing and Sustaining Units	6/30/92			2	Navy
92-123 Chemical and Biological Defense Readiness Reporting	6/30/92			2	AF
92-135 DoD Sealift Operations	9/9/92			1	USD(A&T), TRANSCOM
92-142 Pricing and Billing of F-16 Aircraft Sold to Foreign Military Sales Customers	9/30/92			2	AF
93-002 Controls Over Operating System and Security Software Supporting the Defense Finance and Accounting Service	10/2/92			2	DISA
93-004 Military-Civilian Health Services Partnership Program	10/14/92			2	HA

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WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-009 International Cooperative Research and Development	10/21/92			2	USD(A&T)
93-015 DoD Participation in North Atlantic Treaty Organization Practical Command, Control and Communications Interoperability	11/3/92			1	Army, MC, DISA
93-017 The Critical Design Review Process for Major Defense Acquisition Programs	11/5/92			2	USD(A&T)
93-023 Time and Materials Billings on Air Force Contract F3360-86-D-0295	11/13/92			2	AF
93-024 The Use of Small Business Administration 8 (A) Contractors in Automated Data Processing Acquisitions	11/25/92			2	USD(A&T), Army
93-028 Quick-Reaction Report on Physical and System Security at the East Service Center of the Defense Commissary Agency	11/30/92			1	DeCA
93-033 The Timber Wind Special Access Program	12/16/92			1	C ³ I
93-034 Documentation of Reimbursable Foreign Military Sales Transactions	12/17/92			2	Navy, DLA
93-041 Computed Topography Scanner Maintenance Service Contracts	1/8/93		\$23,600	1	HA, DLA, Army, Navy, AF

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WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-042 Allegations of Improprieties Involving DoD Acquisition of Services Through the Department of Energy	1/21/93			2	OUSD(C), USD(A&T), Navy, DLA
93-046 Acquisition of the Sense and Destroy Armor Weapon System	1/27/93			1	Army
93-047 Medical Facility Requirements-Stockton Fleet Hospital Prepositioning Facility	1/28/93			2	HA
93-053 Missile Procurement Appropriations, Air Force	2/12/93			2	OUSD(C), AF
93-055 Implementation of the Energy Policy Act of 1992	2/18/93			2	AF, DLA
93-056 Controls Over Copyrighted Computer Software	2/19/93			1	C ³ I
93-060 Duplication/Proliferation of Weapon Systems' Modeling and Simulation Efforts Within DoD	3/1/93			2	USD(A&T)
93-062 Counter Low Observable Technology	3/1/93			1	USD(A&T)
93-064 Army Requirements for Currently Procured Wholesale Inventories of Reparable Items	3/12/93		\$23,400	2	Army
93-067 Use of Contractor Cost and Schedule Control System Data	3/11/93			2	USD(A&T), DLA, DCAA

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(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-069 The Airborne Self-Protection Jammer Program as Part of the Audit of the Defense Acquisition Board Review Process - FY 1993	3/22/93			1	USD(A&T)
93-072 Defense Officer Personnel Management Act for Medical Officer Pay and Entitlements	3/22/93			1	USD(P&R)
93-076 Acquisition of Aircrew Chemical and Biological Protective Systems	3/26/93			1	Navy
93-079 Advanced Test Facilities	3/29/93			1	USD(A&T)
93-082 Acquisition of Blacker Communication Security Systems	4/8/93			1	Army, Navy
93-083 Status of Resources and Training System Reporting by National Guard and Reserve Units	4/22/93			1	Army, AF, MC
93-084 The Air Force Military Strategic and Tactical Relay Satellite Terminal Program	4/13/93			2	AF
93-086 Air Force Study on Paint Stripping Technology	4/15/93			2	USD(A&T)
93-089 Integrated Logistics Support for Non- Major Defense Acquisition Programs	4/21/93			1	USD(A&T)

EXHIBIT 3
STATUS OF OIG, DoD REPORTS OVER 12 MONTHS OLD
WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-090 Environmental Management of DoD Base Realignment and Closures	4/22/93			2	USD(A&T)
93-091 Management of the DoD Action Plan for Improving the Quality of Spare Parts	4/28/93			1	USD(A&T)
93-099 Quick-Reaction Report on Base Realignment and Closure Budget Data for the Collocations of Army and Navy Blood and Dental Research Programs	5/24/93			2	Navy
93-104 Administration of the Dual Compensation Act and the Civil Service Reform Act	5/28/93			1	DFAS
93-113 DoD Contractor Insurance Programs	6/18/93			1	DLA
93-115 BA-5598 Lithium Sulfur Dioxide and BA-4386 Magnesium Batteries	6/18/93			2	Navy
93-116 Acquisition of the Advanced Amphibious Assault Vehicles	6/18/93			2	MC
93-118 Quality Assurance for Organic Depot Maintenance of Aircraft	6/21/93			1	Army, AF
93-119 Agreements with North Atlantic Treaty Organization Allies	6/21/93			1	USD(P)

EXHIBIT 3
STATUS OF OIG, DoD REPORTS OVER 12 MONTHS OLD
WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-120 Review of the Multifunctional Information Distribution System as Part of the Audit of the Defense Acquisition Board Review Process	6/21/93			1	USD(A&T)
93-124 Defense Commissary Agency Vendor Payments, Returned Checks and Rebates	6/24/93			1	DeCA
93-125 Selected Aspects of the Advanced Technology Bomber (B-2) Program	6/25/93			1	AF
93-127 Environmental Consequence Analyses for the Joint Standoff Weapon Program	6/25/93			2	USD(A&T)
93-131 Controls Over Wholesale Drug Inventories at the Defense Logistics Agency	6/30/93			1	DLA
93-132 Condition and Economic Recoverability of Materiel in the Disposal Process	6/30/93			1	DLA, Army, AF
93-133 Controls Over Operating System and Security Software Supporting the Defense Finance and Accounting Service	6/30/93			2	DLA, DISA
93-135 Controls Over Vendor Payment Authorizations by the Defense Commissary Agency	6/30/93			2	DeCA
93-146 Contract Terminations at DoD Wholesale Inventory Control Activities	6/30/93		\$95,750	1	USD(A&T)

EXHIBIT 3
STATUS OF OIG, DoD REPORTS OVER 12 MONTHS OLD
WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-152 Administration of Progress Payments at Defense Contract Management District - West	8/5/93			1	DLA
93-156 Corrosion Prevention for Wheeled Vehicles	8/13/93			1	Army
93-162 Capability of U.S. Forces Korea to Receive Reinforcing Units	9/9/93			2	Army
93-163 Procurement Prices Paid on Aircraft Weapon Systems for Foreign Military Sales	9/2/93			1	OUSDC
93-164 Financial Statements of the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund (Defense Fuel Supply Financial Data) for FY 1992	9/2/93			2	DFAS, DLA
93-166 Private Development of the Navy Broadway Complex, San Diego, CA	9/9/93			1	Navy
93-167 Classified Contracts Award	9/9/93			1	NRO
93-168 Imagery Support to the Defense Mapping Agency During Operations Desert Shield and Operation Desert Storm	9/10/93			1	DMA
93-170 Implementation of Special Cost Accounting and Reporting Requirements by Depot Maintenance Activities	9/20/93			1	OUSDC, USD(A&T), Army, Navy, AF

EXHIBIT 3
STATUS OF OIG, DoD REPORTS OVER 12 MONTHS OLD
WITH FINAL ACTION PENDING
(As of September 30, 1994)¹

Report Number/Title	Report Date	Monetary Benefits (\$ in thousands)		Reason Action Not Completed ²	Primary Action Office
		Questioned Costs	Funds Put to Better Use		
93-171 Manpower, Personnel and Training Requirements for Army Tactical Command and Control System	9/20/93			1	Army
93-173 Acquisition-Type Lessons-Learned Programs Within the Military Departments	9/27/93			1	Army
93-175 Follow-up Audit of Requirements Forecasts on Supply Support Requests	9/30/93			1	USD(A&T)

¹The Military Departments reported another 193 reports over 12 months old with final action pending.

²Reason Action Not Completed.

1 - Long-term corrective action on schedule.

2 - Management action slipped significantly from originally estimated completion date.

3 - Formal administrative or judicial appeal.

Acronyms:	AF	Air Force
	OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
	C3I	Command, Control, Communications
	DCAA	Defense Contract Audit Agency
	DeCA	Defense Commissary Agency
	DFAS	Defense Finance and Accounting Service
	DISA	Defense Information Systems Agency
	DLA	Defense Logistics Agency
	DMA	Defense Mapping Agency
	HA	Health Affairs
	MC	Marine Corps
	NRO	National Reconnaissance Office
	TRANSCOM	Transportation Command
	USD(A&T)	Under Secretary of Defense for Acquisition and Technology
	USD(P)	Under Secretary of Defense for Policy
	USD(P&R)	Under Secretary of Defense for Personnel and Readiness

CHAPTER 2 - CONTRACT AUDITS

The OIG, DoD, formulates contract audit policy, provides oversight and coordinates DoD contract audit followup efforts.

The Defense Contract Audit Agency (DCAA) is the separate DoD agency offering independent contract audit and financial advisory services to DoD components. It operates under the general direction and control of the Under Secretary of Defense (Comptroller).

The DCAA offers contract audit services on a reimbursable basis to other Government agencies at contractor locations where the DoD has a continuing audit interest, or where it is more economical from a Government-wide standpoint. Over 90 percent of DCAA audit work is done, however, for the DoD.

The U.S. Army Corps of Engineers audits civil works contracts.

DEFENSE CONTRACT AUDIT AGENCY

Audit Results

Exhibits 4 and 5, page 2-3, display the results of Defense Contract Audit Agency (DCAA) auditing for the Government. The operational audits performed brought additional estimated cost avoidance of \$145.4 million; \$36.1 million in net savings were realized in National Aeronautics and Space Administration contracts.

Significant DCAA Cases

Incurred Costs Audits - A review of the direct and indirect costs charged to Government contracts to determine that the costs are reasonable, allocable and allowable, as prescribed by the Federal Acquisition Regulation, the Defense Federal Acquisition Regulation Supplement and the provisions of the contract. Also included under incurred cost audits are Operation Audits, which evaluate a contractor's operations and management practices to identify opportunities for increased efficiency and economy, and Special Audits, which include audits of terminations and claims.

Termination Settlement

An audit of a termination settlement proposal resulted in savings of \$9.1 million. The Libby Corporation proposed unabsorbed overhead, which was previously submitted in an equitable adjustment claim on another con-

tract. The auditor questioned the overhead as duplicated costs. The termination contracting officer concurred, and the corporation removed the unabsorbed overhead from the proposal. (3201-93F17100009)

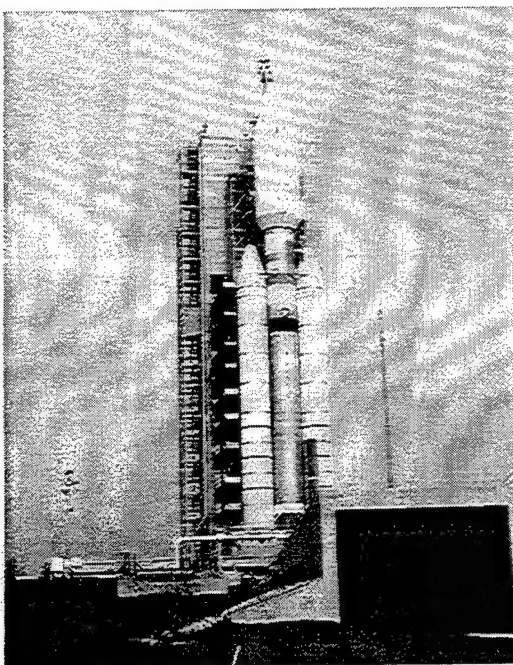
Employee Work Utilization

During an inspection of a contractor's operations, the auditor identified a high potential for employee work inactivity and advised the contractor that a formal work sampling would be conducted. The contractor initially opposed the review and denied the auditor access to employee work areas. Through support of the principal procurement contracting officer and company top management, access was obtained and a review was performed. As a result of the review, the contractor agreed to include an employee inactivity awareness program, strengthen management supervisory controls and reduce staffing. A follow-up audit disclosed that employee inactivity was reduced by nearly 15 percent, resulting in cost avoidances of \$6.9 million. (Assignment # not available)

Working Capital Adjustment

The Hercules Corporation proposed reimbursement for the future value of unbilled costs for working capital invested in developing Titan IV (pictured on page 2-2) tooling and equipment. The adjustment was an element that Congress approved as part of the Titan IV

Program Stabilization. The auditor questioned costs related to the audit application of the U.S. Treasury interest rate instead of a single 10 percent rate of return proposed by the contractor, the audit determined amount for the future value of "negative unusual investment" amounts, and the use of the audit determined loss ratio factor for progress payments. As a result of the audit, the Government saved \$12.6 million. (3231-93C17900002)



Titan IV

Equitable Adjustment

An audit questioned a Johnson Controls International, Incorporated, equitable adjustment proposal for:

- extended warranty costs expressly unallowable under the subcontract and other overhead costs unallowable under the Federal Acquisition Regulation;
- duplicate domestic labor hours included in the "domestic/foreign" labor category;
- the application of overhead to purchased labor costs, which were not included in the proposed labor allocation base; and
- the application of fringe benefits to foreign management labor costs included in the "domestic/foreign" management

labor category when the benefit factor was only applicable to domestic management.

The audit resulted in savings to the Government of \$25.3 million. (3601-92C17200003)

Vendor Quotes

An audit found that the General Electric Company negotiated price for subcontractor parts was based on vendor quotes. General Electric competitively priced subcontractor parts after negotiations, however, and issued purchase orders with different vendors than originally quoted. The practice enabled the company to make significant windfall profits on its subcontractor parts. The audit found lower prices on ten subcontractor parts. Further price reductions were achieved when the contractor approved a less complex wear-coating process. The audit established that overpricing occurred and recommended that a voluntary refund be requested. After reviewing the audit results, the company performed an internal investigation and subsequently agreed to a refund of \$5.7 million. (1731-92D17900031)

Standard Attendance and Labor Collection System

An operations audit of the Standard Attendance and Labor Collection system of the Boeing Company resulted in savings to the Government of \$2.1 million. The system was the company's primary method for recording labor and generating payroll. It was paper driven and required significant amounts of manual labor. The auditor recommended replacing it with a automated system that would:

- improve the accuracy and integrity of the data;
- provide management accurate and timely reports;
- improve internal controls and auditability of data;
- reduce timekeeping and data entry costs; and
- reduce labor and processing costs for error corrections.

The company subsequently installed an automated timekeeping system. (4241-88C10501004)

EXHIBIT 4¹
CONTRACT AUDIT REPORTS ISSUED - DEFENSE CONTRACT AUDIT AGENCY
(For the 6-month period ending September 30, 1994)
(Dollar amounts in millions)

Type of Audit	Reports Issued	Examined	Audit Exceptions	Funds Put to Better Use ⁴
Incurring Costs	25,594	\$75,239.9	\$1,767.3	N/A
Forward Pricing Proposals	10,310	92,261.1	N/A	\$4,524.8
Cost Accounting Standards	3,496	280.1	228.8	N/A
Defective Pricing ²	1,106	--	77.6	N/A
Other ³	28	--	--	N/A
Total	40,534	\$167,781.1	\$2,073.7	\$4,524.8

¹Because of limited time between availability of management information system data and legislative requirements, there is a minimal opportunity for DCAA to verify accuracy of reported data. Accordingly, submitted data are subject to change based on subsequent DCAA authentication.

²Defective pricing dollars examined are not reported because they are considered a duplication of forward pricing dollars reported as examined.

³Relates to suspected irregular conduct cases.

⁴Cost avoidance.

EXHIBIT 5¹
CONTRACT AUDIT REPORTS CLOSED² - DEFENSE CONTRACT AUDIT AGENCY
(For the 6-month period ending September 30, 1994)
(Dollar amounts in millions)

Type of Audit	Reports Closed	Audit Exceptions	Disallowed Costs	Funds Put to Better Use ³
Incurring Costs	2,167	\$1,371.4	\$1,030.4	N/A
Forward Pricing Proposals	2,951	4,618.3	N/A	\$1,160.3
Cost Accounting Standards	60	83.9	37.1	N/A
Defective Pricing	210	77.9	27.2	N/A
Total	5,388	\$6,151.5	\$1,094.7	\$1,160.3

¹Because of limited time between availability of management information system data and legislative requirements, there is minimal opportunity for DCAA to verify accuracy of reported data. Accordingly, submitted data are subject to change based on subsequent DCAA authentication.

²Represents audit reports issued to procurement and/or administrative contracting officers that had audit exceptions upon which final contracting officer decisions were rendered during the period.

³Cost avoidance.

Loss Ratio Adjustment

The BMY-Combat Systems' proposed termination settlement represented total costs incurred on the contract plus profit. The auditor examined the contractor's internal cost performance reports and determined that the contract would have been in a loss position had it been completed. The loss was further substantiated by the contractor's tax return data. As a result, the auditor computed a loss ratio adjustment to reduce incurred cost recovery. Further, the auditor questioned profit because the contract was in a loss position. As a result, the Government saved \$8 million. (6291-91C171000001)

Forward Pricing Proposal Audits--*A review of estimated future costs of proposed contract prices, proposed contract change orders, costs for redeterminable fixed-price contracts and costs incurred but not yet covered by definitized contracts.*

Quantity Discounts

An audit of a Martin Marietta Electronics and Missiles Corporation firm-fixed-price proposal for Patriot missiles, radar sets, launching stations and related equipment resulted in \$91.2 million in savings to the Government. The company failed to consider quantity discounts in its proposed material costs. Also, the contractor had already purchased some of the material at a lower cost than proposed. Other material costs were questioned by applying a decrement factor developed from a comparison of proposed material costs included in prior proposals to actual costs paid. Direct labor hours were also questioned because of duplicated proposed effort, a delivery schedule that was different than proposed and exceptions to the proposed level-of-effort for engineering labor. (1461-93A2100051)

Overhead Rates

An audit of an FMC Corporation proposal for fixed-price and cost-reimbursable effort to overhaul and convert certain U.S. Army vehicles resulted in savings to the Government of \$15.8 million. Discrepancies were found in the contractor's computation of proposed overhead rates, which resulted in reduced rates for the basic and option periods of the contract. Additionally, Government-furnished material was bid as contractor-furnished materials. (1201-93C21000133)

Combustion Engine

During the evaluation of a Textron, Lycoming Division, multi-year combustion engine proposal, auditors questioned material, labor and overhead costs. A stratified statistical sampling plan resulted in questioned material costs due to the use of more current quotations, available inventory and reduction factors applied to vendor quotes. A separate statistical sampling plan of direct labor standards resulted in questioned costs due to more current historical data. Questioned indirect expenses resulted from previous work sampling that identified significant inefficiencies and unallowable costs. The evaluation resulted in savings to the Government of \$236.3 million. (2121-91A21000016)

CH-53 Aircraft

An audit of a UTC Sikorsky Aircraft Division firm-fixed-price proposal for the CH-53 aircraft resulted in savings to the Government of \$115 million. The savings resulted after the auditor questioned the various factors and rates the contractor used for determining material, labor and indirect costs. (2661-92B21000004)



CH-53 Aircraft

Licensing Fee

Savings of \$13.3 million resulted from the audit of a Building Technology Associates, Incorporated, proposal. Most of the savings (\$11 million) resulted from an unallowable computer software licensing fee and the application of general and administrative costs. The terms of the proposal stated that computer licensing fees could not be charged directly to the contract. The auditor also questioned proposed labor and overhead rates that were

higher than historical experience. The contracting officer concurred with the audit recommendations. The licensing fee was deleted from the proposal during negotiations. (2261-93P21000055)

Bradley Fighting Vehicles

An audit of a FMC, Ground Systems Division, proposal to build Bradley Fighting Vehicles resulted in savings to the Government of \$92.2 million. The savings resulted because the audit questioned certain estimating factors used to determine material costs. (4391-90D21000910)

Cost Accounting Standards (CAS) Audits—*A review of a contractor's cost impact statement required due to changes to disclosed practices, failure to consistently follow a disclosed or established cost accounting practice or noncompliance with a Cost Accounting Standards regulation.*

Pension Cost

An audit of a Chrysler Corporation cost impact proposal for a noncompliance with Cost Accounting Standard (CAS) 413, Adjustment and Allocation of Pension Cost, resulted in savings to the Government of \$3.9 million. The company initially allocated pension costs from closed segments to the remaining segment having Defense contracts. In the settlement, Chrysler agreed to allocate the closed

segment pension costs as residual home office expense in accordance with CAS 403, Allocation of Home Office Expenses to Segments. (2261-93P19500079)

Defective Pricing Audits—*A review to determine whether contracts are based on current, complete and accurate cost or pricing data (the Truth in Negotiations Act).*

Weapon System Production Contract

During the audit of a Martin Marietta Government Electronic Systems major weapon system production contract, the auditor identified inaccurate and out-of-date cost or pricing data related to purchased material and quantity requirements. The auditor also disclosed errors in the company's calculation of certified costs. As a result of the audit, the Government saved \$2.2 million. (6501-91C42010008)

Subcontract Scope Change

An audit found that the McDonnell Douglas Aerospace Tactical Aircraft and Missile Systems had knowledge of a subcontract scope change prior to the negotiation of a price agreement that reduced the subcontractor's original price quote. The scope change did not require Government approval, and the Government was not aware of the change. McDonnell Douglas provided an updated



Bradley Fighting Vehicle

EXHIBIT 6
CONTRACT AUDIT REPORTS ISSUED - U.S. ARMY CORPS OF ENGINEERS
(For the 6-month period ending September 30, 1994)
(Dollar amounts in millions)

Type of Audit	Reports Issued	Examined	Audit Exceptions	Funds Put to Better Use*
Incurring Costs	48	\$105.3	\$5.2	N/A
Forward Pricing Proposals	72	42.2	--	\$5.9
Defective Pricing	1	6.8	--	N/A
Other	6	6.9	.1	N/A
Total	127	\$161.3	\$5.3	\$5.9

* Cost avoidance.

EXHIBIT 7
CONTRACT AUDIT REPORTS CLOSED - U.S. ARMY CORPS OF ENGINEERS
(For the 6-month period ending September 30, 1994)
(Dollar amounts in millions)

Type of Audit	Reports Closed	Audit Exceptions	Disallowed Costs	Funds Put to Better Use
Incurring Costs	39	\$7.1	\$3.3	N/A
Forward Pricing Proposals	59	3.5	--	\$2.0
Defective Pricing	1	--	--	N/A
Other	3	.1	.1	N/A
Total	102	\$10.7	\$3.4	\$2.0

price quote in its defective pricing sweep package that was dated after the price agreement and execution of the Certificate of Current Cost or Pricing Data. The contractor did not clearly demonstrate the relationship between the revised data and the proposal. As a result of the audit, the contract price was adjusted and the Government saved \$912,000. (3421-92A42010003)

ARMY CORPS OF ENGINEERS (CoE)

Significant CoE Audits

Auditors issued 127 reports that examined \$161.3 million and recommended that \$5.9 million be put to better use (Exhibits 6 and 7, page 2-6).

Navigation Improvement

An audit of an agreement with a local sponsor for navigation improvement questioned \$2.2 million of incurred costs. Questioned costs included payments for contractor delays, liquidated damages, amounts retained pending resolution of outstanding issues and costs incurred before the effective date of the agreement. (KJ 94-160-28)

Overhead and Bond Costs

An audit of an equitable adjustment claim questioned \$600,000 in overhead and bond costs. The contractor's overhead application was inconsistent with the company's established method of computing the rate. The proposed overhead on subcontract costs was computed exclusive of subcontracts costs in the base. (LMV-DA-N 94-172-14)

CONTRACT AUDIT POLICY AND OVERSIGHT

The Office of the Assistant Inspector General for Audit Policy and Oversight (AIG-APO) provides policy for, and oversight of, the contract audit organizations in the DoD and public accounting firms performing examinations under the Single Audit Act. The AIG-APO also evaluates proposed regulations, publications, reports and legislation affecting contract audits and contract costs.

The following actions were accomplished during the period:

Report on the Review of Hotline Allegations, Defense Contract Audit Agency, Central Region (APO 94-009)

Our final report on the review of Hotline allegations of mismanagement and abuse of Government funds in the DCAA substantiated the primary allegation of misuse of telephone services by a senior management official and identified internal control deficiencies which allowed the abuse to occur. The report included 15 recommendations on the use and payment of telephone services, proper retention of records, proper use of temporary help services and improvements to the review and reporting of internal management control deficiencies.

Report on the Defense Contract Audit Agency Audits of Restructuring Costs at Hughes Missile Systems Company, Tucson, Arizona (APO 94-011)

During a review of Hotline allegations concerning DoD audits and contract administration at the Hughes Missile Systems Company (HMSC), we found deficiencies in the oversight of \$300 to \$400 million of restructuring costs resulting from the HMSC acquisition of General Dynamics Corporation contracts. The Defense Contract Management Command failed to require the HMSC to submit a proposal and negotiate an advance agreement detailing when payment of the costs would terminate and that savings to the Government must be realized. The DCAA did not independently report the HMSC failure to comply with acquisition regulations, cost accounting standards, public law and contract clauses with regard to the acquisition. Eleven recommendations were made detailing the specific audit steps required to address the regulations and laws governing incurred cost, progress payments and proposal requirements related to restructuring costs.

Report on the Oversight Review of the Defense Contract Audit Agency Reliance on the Work of Others (APO 94-018)

The objectives of our review included evaluating the appropriateness and effectiveness of DCAA reliance on the work of contractor internal and external auditors. Our review disclosed that the DCAA did not always adequately evaluate or effectively use available internal audit products. Deficiencies were also identified on reviews of voluntary deletions and associated costs. The DCAA did not adequately assess contractor internal controls relating to the screening process for identifying and segregating unallowable costs. Most DCAA audit files did not sufficiently document the review of the work or the reliance placed on the work product. Deficiencies were also identified relating to allowing a contractor to jointly review a Hotline allegation, failing to consider and report a contractor's failure to implement corrective action required by a Settlement/Suspension Agreement, and unnecessarily requiring access to external auditors' working papers when performing financial capability reviews.

Single Audit Activity

During the period, 315 audit reports were received from universities and nonprofit organizations for review and approval. Most of the audits were performed by public accountants while coordinated audits by public accountants and the DCAA were performed at major educational institutions. The annual audit reports are due within 13 months of the institutions' fiscal year end. We continue to experience many delinquent reports. The delays are attributed to the lack of audited indirect cost rates at institutions with post-determined rates. If predetermined rates were used at those institutions, the delays could be avoided.

A Federal Acquisition Regulation (FAR) change was initiated to remove the prohibition of using predetermined indirect cost rates on cost type contracts for more than 1 year. Office of Management and Budget Circular A-21 states that predetermined rates for a period of 2 to 4 years should be the norm at educational institutions. Such rates, when in effect for multiple periods, save DoD audit and contract administration resources, as well as institutional resources, by avoiding repetitive audits and negotiations. The DoD averages about \$50,000 per annual negotiation at its cognizant universities. A potential annual savings of \$1.5 million could be realized for the 29 DoD cognizant universities when converted to predetermined rates for a multiyear period. It is expected that a FAR change or deviation will be approved within the year

to remove the prohibition on multiyear predetermined rates.

CONTRACT AUDIT FOLLOWUP (Department of Defense)

The Assistant Inspector General for Analysis and Followup (AIG-AFU) develops policy and oversees and determines the adequacy of contract audit follow-up systems maintained within the DoD. Those responsibilities are carried out by conducting field reviews of approximately 300 DoD contracting and contract administration offices that process significant postaward contract audits and by performing special project reviews that result in recommendations to improve the effectiveness of DoD contract audit followup systems. The AIG-AFU provides the Secretary of Defense and DoD contract audit followup officials with periodic reports on the timeliness and adequacy of actions being taken on significant post-award contract audits.

During the period, the AIG-AFU conducted contract audit followup and special project reviews at 25 contracting and contract administration activities, reviewed the timeliness and adequacy of actions taken on recommendations made in 611 contract audit reports, and issued 1 special project report and 19 contract audit followup reports.

The special project review focused on overpayments made to contractors as a result of defective cost or pricing data or noncompliance with the Cost Accounting Standards (CAS). We found various problems regarding debt determination and collection procedures used by the DoD components and identified \$1.8 million in contract debts and interest that were not being pursued by DoD because of the inadequate procedures. Our efforts resulted in the collection of the monies which were deposited to the Treasury or credited to the proper appropriations. The findings caused us to place additional emphasis during our followup reviews on ensuring that actions taken in closing defective pricing and CAS impact audits included proper determinations and collections of overpayments and interest. As a result, an additional \$11.6 million was identified, collected and deposited in the Treasury.

We also obtained DoD agreement on various policy changes to correct the debt collection deficiencies. The pending policy changes should result in consistent assessment and collection of debts and applicable interest owed by contractors as a result of defective pricing and CAS noncompliances.

Exhibit 8 summarizes significant postaward contract audit report statistics for the period.

EXHIBIT 8
CONTRACT AUDIT FOLLOWUP RESULTS
SIGNIFICANT POSTAWARD AUDITS
(For the 6-month period ending September 30, 1994)
(Dollar amounts in millions)

OPEN		
Category	Number of Reports	Cost Questioned
Undecided, < 6 months old	635	\$907.0
Undecided > 6 months old*	1,034	2,654.4
Decided < 12 months old	353	475.3
Decided > 12 months old	945	1,593.5
In Litigation	325	2,607.1
Total	3,292	8,237.3
* Of the reports, 359 involve defective pricing, and 187 involve noncompliance with the cost accounting standards.		

CLOSED	
Number of Reports	Disallowed Costs
1,442	\$1,040.0

CHAPTER 3 - CRIMINAL INVESTIGATIONS

MAJOR CONCERNS

The Office of the Inspector General, DoD, continues to place major emphasis on critical issues in the areas of product substitution, cost mischarging and health care fraud.

Substandard or inferior parts and equipment have the potential to seriously impact on the readiness of the forces. With a goal of minimizing the impact, successful results were achieved from investigations of Counterfeit Parts and Launcher Electronic Units (p. 3-2).

The mischarging of costs by DoD contractors on DoD contracts for weapons, supplies and services causes the inappropriate and wasteful expenditure of scarce financial resources. Investigations in this area have resulted in significant recoupments to the Government; for example, Research and Development Costs, Inflated Prices, and Logistics and Engineering Services (p. 3-2).

Health care is one of the top ten issues facing the DoD and the nation. Abuses by health care providers can negatively impact on care delivery and cost growth. Recent investigations have highlighted some significant problem areas, specifically the cases: Psychiatric Services and Physical Exams and Diagnostic Tests (page 3-5).

This chapter gives summary statistics and describes selected fraud cases investigated by the Defense Criminal Investigative Service (DCIS)—an arm of the Office of the Inspector General, DoD—the Army Criminal Investigation Command (CIDC), the Naval Criminal Investigative Service (NCIS) and the Air Force Office of Special Investigations (AFOSI). The NCIS and the AFOSI also conduct counterintelligence investigations. The chapter also provides OIG, DoD, criminal investigative policy and oversight activities.

Exhibit 9, page 3-9, shows information on investigative results achieved during the period for those IG Reporting Codes that best reflect the IG, DoD, emphasis on procurement fraud and health care provider fraud. Other investigative results are presented in Appendix E. Exhibit 10 shows the numbers of contractors and individuals suspended and debarred as a result of DoD criminal investigations.

This is the first report in which the IG, DoD, has segregated investigative case results between high emphasis and other areas. Special care has been taken to prevent this change from precluding comparisons with prior periods. The combination of case results reported in Exhibit 9 with those reported in Appendix E provides the full data necessary for comparisons with prior periods. As in previous reports, the current statistics do not include general crime investigations or counterintelligence activities.

SIGNIFICANT INVESTIGATIVE CASES

Product Substitution

Counterfeit Parts

An investigation found that Schoonmaker Service Parts Company, Incorporated, provided counterfeit marine diesel engine parts to the Government, some of which were critical items on military nuclear submarines and combat vessels. Testing and inspection found that failure of certain critical parts could have caused hazardous or unsafe conditions for individuals using the parts. The company president, Wilburn Troy Padgett, was sentenced to 1 year incarceration, a \$4,000 fine and restitution of \$800,000. (DCIS)

Launcher Electronic Unit (LEU)

A joint investigation by the DCIS and the AFOSI resulted in a plea agreement by Lucas Industries, Incorporated. Lucas manufactured LEU, a device that enables fighter pilots to launch Maverick missiles. Lucas supervisory personnel directed subordinates to falsify test results. A number of LEUs failed to launch missiles during Operation DESERT STORM and jeopardized pilots and soldiers. Lucas agreed to pay \$12 million in fines and restitution. (DCIS/AFOSI)

Cost Mischarging

Research and Development Costs

A multiagency task force investigation resulted in the payment of \$75 million by the Boeing Company to settle allegations of cost mischarging. The settlement concluded a 6-year investigation into Boeing's charging and cost accounting practices between 1980 and 1991. One aspect of the investigation concerned allegations that Boeing improperly charged millions of dollars in research and development costs to Government contracts, which Boeing improperly characterized as overhead on its manufacturing and production efforts. By misclassifying the costs, Boeing shifted costs from Boeing to the Government. As part of the settlement, Boeing also acknowledged charging Government contracts improperly for several million dollars in

foreign direct selling costs incurred in selling its aircraft abroad. (NCIS/DCIS/AFOSI)

Inflated Prices

A DCIS investigation, with audit assistance by the Defense Contract Audit Agency, resulted in a \$29 million settlement by TRW, Incorporated, for cost mischarging and defective pricing on Government contracts. The investigation disclosed that TRW significantly inflated its prices, which caused prime contractors to unwittingly submit inflated claims under their prime contracts with the DoD. Those actions impacted on numerous DoD subcontracts. (DCIS)

Logistics and Engineering Services

As the result of an investigation, a \$400,000 civil settlement was reached with Support Systems Associates, Incorporated, (SSAI) for violating the False Claims Act. The SSAI contracted to provide logistics and engineering services to the Naval Aviation Depot, North Island, CA, from 1984 through 1987. During the period, SSAI was involved in cost mischarging activities, including cross-charging labor hours and billing for services not provided. (NCIS)

Defective Pricing

Management Reserves

A joint investigation by the DCIS and the AFOSI, with audit assistance by the Defense Contract Audit Agency, resulted in a \$6.3 million civil settlement with the Martin Marietta Corporation. The settlement resolved issues involving the General Electric Company Aerospace Division, which was purchased by Martin Marietta in April 1993. The Division did not disclose required cost or pricing data by concealing certain management reserves or contingencies in its bids on Government contracts. (DCIS/AFOSI)

Qui Tam Settlement

As the result of two qui tam lawsuits against Teledyne Industries, Incorporated, a \$112.5 million civil settlement was reached. A joint investigation by the DCIS, AFOSI, NCIS, CIDC, the National Aeronautics and Space Administration and the Federal Bureau of Investigation, found that the Relays Division of

\$1.79 million civil settlement with the Department of Justice. (DCIS)



Apache helicopter

Teledyne sold the DoD millions of improperly tested electromechanical relays and that the Systems Division padded DoD contracts on aircraft electronic equipment. One of the qui tam relators alleged that Teledyne provided defective cost and pricing data on military contracts affecting the F-14 fighter, the space shuttle and the Apache helicopter. In addition to criminal and civil actions previously reported in the matter, Teledyne, on behalf of its divisions, has paid \$133.75 million in criminal and civil penalties. (DCIS/AFOSI/NCIS/CIDC)

Computer Hardware

The Dynamics Research Corporation (DRC) provided computer hardware and software systems for a centralized data system to monitor the performance and maintenance of F-16 aircraft (pictured on page 3-4). The company purchased computer equipment from several vendors and obtained as much as a 30 percent discount on the equipment. The DRC then knowingly did not disclose the discount during contract negotiations. As a result of the investigation, the DRC reached a

Pricing Data

An investigation by the DCIS and the NCIS, with audit assistance by the Defense Contract Audit Agency, found that Raymond Engineering, Incorporated, failed to disclose updated pricing data during negotiations with Raytheon Corporation, a prime DoD contractor, building Patriot missiles for the Army. Raymond's failure to provide accurate data resulted in Raytheon negotiating four contracts with inflated costs. As a result of the investigation, Raymond will pay the Government \$765,993 for violations of the Truth in Negotiations Act. (NCIS/DCIS)

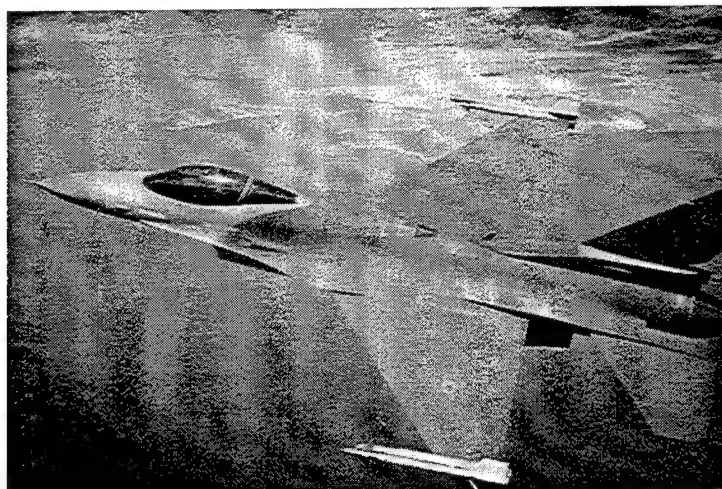
False Claims

Test Irregularities

A joint investigation by the DCIS, the AFOSI, the NCIS and the Federal Bureau of Investigation resulted in a plea agreement whereby Rohr Incorporated will pay a \$3.686 million criminal fine. In addition, Rohr agreed to pay \$4 million as part of a civil settlement and to reserve \$2 million to guarantee the performance of a warranty for the C-5 aircraft (pictured on page 3-4) pylon spares affected by test irregularities. The investigation found that Rohr made false statements concerning the testing of parts and adhesive materials used in



Patriot missile



F-16 aircraft

the C-5 cargo plane and the F-14 fighter aircraft. (DCIS/AFOSI/NCIS)

Computer Costs

As the result of a qui tam lawsuit by a former official of Litton Computer Services (LCS), Litton Systems, Incorporated, signed an \$82 million settlement agreement. An investigation, with audit assistance by the Defense Contract Audit Agency, found that LCS altered a computer billing formula to limit the charges made to commercial contracts and resulted in Government contracts absorbing the costs. (DCIS/AFOSI/NCIS)

Engineering Support Services

A joint investigation by the DCIS, the AFOSI, the National Aeronautics and Space Administration (NASA), and the Federal Bureau of Investigation, with audit assistance by the Defense Contract Audit Agency, resulted in the successful prosecution of three former Analox Corporation employees and a civil settlement with the Department of Justice in which the company agreed to repay at least \$6 million for unallowable costs claimed on DoD and NASA contracts.

The unallowable costs included questionable salaries for relatives, expenses for a commercial restaurant venture, personal country club dues, certain consultant payments, personal expenses for a European trip and personal condominium rental. (DCIS/AFOSI)

Fraudulent Payments

An investigation found that Naomi Aquiningoc, a former accounting technician for the Defense Logistics Agency (DLA), issued herself 42 checks totaling more than \$73,000 from a DLA account used to pay vendors. In addition, Aquiningoc obtained money from the DLA by submitting false



C-5 aircraft

temporary duty (TDY) travel orders and TDY vouchers in her name and in the name of another DLA employee. The Defense Finance and Accounting Service processed the vouchers and issued the checks. The scheme netted her \$95,400 in 52 separate payments. Aquiningoc was sentenced to 21 months imprisonment, 3 years supervised release, a \$200 special assessment fee and \$169,068 in restitution. (DCIS)

Tow Vehicle Power Conditioners (TVPC)

Triad Microsystems I was awarded a contract to manufacture TVPC. An investigation disclosed that several senior personnel of Triad conspired to defraud the Government by directing Triad employees to use Vaseline petroleum jelly, an unauthorized sealing agent, on the TVPC o-ring gaskets. This resulted in Triad falsely certifying that the o-rings met contract requirements. Additionally, management personnel conspired to defraud the Government by altering certifications to indicate that certified employees performed soldering on TVPC sub-assemblies. From August 1987 through April 1988, Triad was paid claims for progress payments of over \$11 million for 534 defective TVPC. Following trial, the Government was awarded \$600,000 in treble damages and \$5,000 in civil penalties. The company was also required to return \$3,767,811 in unliquidated progress payments to the Government. (CICD)

Health Care Fraud

Psychiatric Services

Joint investigations by the DCIS, the Federal Bureau of Investigation, the Department of Health and Human Services, the U.S. Postal Inspection Service, the Internal Revenue Service, the Office of Personnel Management and the Securities and Exchange Commission resulted in a guilty plea by a subsidiary of National Medical Enterprises, Incorporated (NME), NME Psychiatric Hospitals, Incorporated (NMEPHI), to conspiracy and fraud. The NME agreed to pay a total of \$348.2 million in civil, criminal and administrative damages and penalties for harm to Government health insurance programs.

The NMEPHI managed more than 70 psychiatric hospitals nationwide. The investigation found that NMEPHI paid

kickbacks to doctors, referral services and others as an incentive for referring patients to its hospitals. The NMEPHI facilities admitted and treated patients unnecessarily, hospitalized patients longer than necessary in order to exhaust the available insurance coverage, billed insurance programs multiple times for the same service and for services not rendered, and billed Medicare for the kickbacks to induce referrals. In the last 5 years, NME psychiatric facilities billed the Uniformed Services Health and Medical Program of the Uniformed Services (CHAMPUS) over \$500 million and were paid over \$280 million. (DCIS)

In a related case, the DCIS, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the Department of Health and Human Services Inspector General, the Indiana Medicaid Fraud Control Unit and the AFOSI investigated the involvement of the Arbor Hospital of Greater Indianapolis, Incorporated, in fraudulent activities connected with psychiatric care provided under the CHAMPUS. The investigation was credited with \$14,462,800 of the civil and administrative recoveries included in a universal settlement agreement with a major psychiatric hospital chain to address alleged wrongdoing by corporate entities involved in 23 separate DCIS investigations. The Arbor Hospital investigative work originated from a separate DCIS proactive investigative project. The AFOSI participated in the Arbor Hospital investigation. (DCIS/AFOSI)

Physical Exams and Diagnostic Tests

A joint investigation by the DCIS, the U.S. Postal Inspection Service, the Internal Revenue Service and several California agencies resulted in Michael Smushkevich and Bogich Jovovich being sentenced to 21 years and 20 years incarceration, respectively, for fraud against numerous Government programs and health insurance companies. Smushkevich was fined \$2.75 million. Jovovich was fined \$500,000.

Smushkevich and Jovovich were associated with various medical clinics in southern California that administered physical examinations and diagnostic tests to persons covered by the CHAMPUS and private medical insurance programs. Based on the examinations and tests, false and fraudulent claims were

submitted to the insurance programs using the U.S. mail system. (DCIS)

Other Indictments, Convictions and Civil Actions

Foreign Military Sales

A joint investigation by the DCIS, the Federal Bureau of Investigation, the Internal Revenue Service, the U.S. Postal Inspection Service and the Federal Maritime Commission resulted in Sylvan Friedman, president and sole share holder of Multi-Modal Freight Systems, Incorporated, being sentenced to 70 months imprisonment and ordered to pay \$1.129 million in criminal fines and restitution. The investigation found that Friedman and others used false and grossly inflated invoices to bill the DoD and the Governments of Turkey, Tunisia, Morocco and Malaysia for inland freight charges on cargo purchased under the foreign military sales program. The freight charges were increased by 200 to 400 percent and the freight bills submitted to the DoD and the foreign governments bore the name of a nonexistent trucking company that did not provide any legitimate services. (DCIS)

Indictments and Convictions

Exhibit 11, page 3-10, shows some of the major indictments, convictions or recoveries obtained by DoD criminal investigative organizations from April 1, 1994 through September 30, 1994.

Policy and Oversight Activities

The Office of the Assistant Inspector General for Criminal Investigative Policy and Oversight (OAIG-CIPO) is responsible for developing new or revised investigative policy applicable to all DoD criminal investigative organizations (DCIO) and conducts oversight reviews to ensure compliance with established policy. The office also administers the DoD Voluntary Disclosure Program and is responsible for coordinating DoD investigative efforts involved in:

- ° voluntary disclosure verifications;
- ° the Program Fraud Civil Remedies Act of 1986;
- ° Qui Tam suits filed by private parties against DoD vendors or other third parties; and

- ° matters referred by the Defense Contract Audit Agency that warrant investigative attention.

The OAIG-CIPO also processes requests by the military criminal investigative organizations (MCIO) for IG subpoenas to support ongoing investigations or audits, arranges for subpoena issuances and monitors the cases to ensure results consistent with the IG involvement.

In accordance with Section 1185 of the National Defense Authorization Act of FY 1994, a family member may request that the IG review a MCIO investigation of the death of a Service member when the investigation determines the death resulted from a self-inflicted cause. The request must contain or describe specific evidence of a material deficiency in the initial investigation. The statute also requires the OAIG-CIPO to review and report on the Military Department policies and procedures for investigating such death cases.

The OAIG-CIPO is also responsible for actions under DoD Directive 8320.1, "DoD Data Administration," and related guidance from the Deputy Secretary of Defense. The Directive designated the IG, DoD, as the Principal Staff Assistant (PSA) for audits, inspections and criminal investigations in the DoD. The Deputy Secretary of Defense directed the PSAs to identify a single information management "migration system" within each functional area, and functional users to migrate to the designated system over a 3-year period. The OAIG-CIPO is responsible for identifying the migration system for criminal investigations and working with the DCIOs to ensure implementation of the migration system. The required efforts include using the concepts involved in business process reengineering practices to identify a current, modified or new system best meeting functional user needs while achieving standardization within the DoD.

During the reporting period, the following activities contributed to the accomplishments of the OIG, DoD criminal investigative policy and oversight roles:

- ° Completed investigative work and reported on one Service member death case referred to the OIG, DoD by a Member of Congress. In addition, completed investigative work and began drafting reports on three other unattended death cases referred by congressional members.
- ° Completed oversight reviews on specific MCIO investigations in response to Hotline and other complaints. The reviews involved

allegations of investigator and agency misconduct and were assessed for completeness and compliance with investigative standards.

- Initiated oversight reviews on:
 - » Compliance by the Military Departments with DoD Directive 7050.5, "Coordination of Remedies for Fraud and Corruption Related to Procurement Activities."
- Initiated policy development actions, including:
 - » Resubmission to interested parties for another round of formal coordination of DoD Directive 5200.24, "Interception of Wire, Electronic and Oral Communications for Law Enforcement Purposes."
 - » Worked with the Office of the Under Secretary of Defense for Personnel and Readiness (USDP&R) to complete coordination on revisions to DoD Directive 1030.1, "Victim-Witness Assistance Programs," and participation in the DoD Interdisciplinary Victim-Witness Assistance Council.
 - » Developed and coordinated a unified DCIO position on modifications to the Defense Clearance and Investigative Index proposed by the Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence).
 - » Drafting a proposed DoD Instruction on the use of mail circulation to obtain information or evidence related to investigative activities.
- Continued oversight efforts under the Corporate Information Management (CIM) Program to identify and adopt a standard information management system for criminal investigations.
- Worked with the Office of the USDP&R to complete and execute a Joint Working Agreement between the USDP&R, the IG, DoD, the DoD General Counsel and the Director, Administration and Management, to implement mechanisms for meeting statutory reporting requirements related to:
 - » the National Incident-Based Reporting System (NIBRS);
 - » the notification of victims and witnesses of DoD crime; and
 - » the Brady Bill.

The reporting requirements impact across functional and policy responsibilities in the overall DoD law enforcement area, and their satisfaction will require concerted, coordinated efforts by the various policy proponents responsible for the individual functional areas. The Joint Working Agreement provides for the needed coordination with the ongoing CIM initiative in criminal investigations.

- Reviewed and coordinated the issuance of 92 new IG subpoenas in support of investigations that MCIOs conduct on behalf of the IG. The OAIG-Investigations processed an additional 217 subpoenas in connection with its investigations. Overall, the IG issued 309 subpoenas during the period, increasing the total IG subpoenas issued to date to 5,857.

Voluntary Disclosure Program

The DoD Voluntary Disclosure Program encourages contractors to voluntarily disclose potential criminal or civil fraud that may affect their contractual relationship with the Department or the contractor's responsibility under the Federal Acquisition Regulation. The Program, established in 1986, is administered by the OAIG-CIPO.

In cooperation with the Department of Justice, the DoD continues to take the initiative in enhancing the confidence between the Government and industry. Defense contractors who are signatories to the Defense Industry Initiatives or who participate in the Voluntary Disclosure Program present a corporate policy against illegal or improper conduct and establish high standards demonstrating that criminal actions will not be condoned.

Since its inception, the program has received 325 disclosures. Three corporations and 53 individuals have been convicted, and one contractor has been debarred. The Government has received over \$290 million in criminal, civil and administrative recoveries as a result of the Voluntary Disclosure Program.

During the reporting period, 10 new disclosures were received and \$25 million were recovered. Significant recoveries were as follows:

- A voluntary disclosure matter was settled with the Government recovering \$7.8 million, including \$2.5 million that previously had been paid to the Government. The settlement covered erroneous engineering and tooling work order changes and erroneous journal

voucher transfers. In accordance with the settlement, the Government may seek administrative remedies to recover outstanding claims regarding IR&D/B&P costs. (DCIS)

- A major Defense contractor entered into a settlement agreement in connection with a cost mischarging disclosed under the Voluntary Disclosure Program. The company paid the Government \$5,230,750 to redress the mischarging. (DCIS)
- The Defense Logistics Agency entered into an administrative settlement agreement with a Top 100 Defense contractor. The agreement covered defective cost and pricing information provided in connection with a series of Defense contracts and subcontracts. The company paid the Government \$10,194,378 in settlement of the matter. (DCIS)

Some significant disclosures during the period were:

- A Top 100 contractor requested admission into the Voluntary Disclosure Program due to possible noncompliance with Federal acquisition regulations requiring the identification and labeling of hazardous materials.
- A major Defense contractor disclosed that the company may have made unauthorized changes to testing tolerances in connection with equipment manufactured for the DoD.
- A contractor disclosed that it may not have performed product quality conformity tests in strict accordance with established standardized testing methods when refining fuel oil products sold to the DoD.

EXHIBIT 9 INVESTIGATIVE CASE RESULTS For the 6-Month Period Ending September 30, 1994 (Procurement Fraud and Major Health Care Areas)¹						
	Defense Criminal Investigative Organization (DCIO)					
	DCIS	CIDC	NCIS	OSI	JOINT DCIOs	TOTAL
LITIGATION RESULTS - DOJ ONLY						
Indictments	67	0	11	22	103	203
Convictions	46	0	8	12	78	144
Civil Settlements/Judgments	5	1	7	1	23	37
MONETARY OUTCOMES (\$000)						
DOJ Only	45,699	10	2,185	6,311	235,647	289,852
DoD Administrative	343,805	104	1,377	3,796	131,029	480,111
Total	389,504	114	3,562	10,107	366,676	769,963
¹ Included are cases reported under IG Report Codes B (Conflict of Interest), D (Antitrust Act Violations), E (Procurement Fraud), I2 (CHAMPUS Fraud: Medical Practitioner) and I3 (CHAMPUS Fraud: Health Care Facility). The results for investigations involving other IG Reporting Codes are presented in Appendix E.						

EXHIBIT 10 SUSPENSIONS AND DEBARMENTS RESULTING FROM CRIMINAL INVESTIGATIONS For the 6-Month Period Ending September 30, 1994						
	Defense Criminal Investigative Organization (DCIO)					
	DCIS	CIDC	NCIS	OSI	JOINT DCIOs	TOTAL
DoD CONTRACT ACTIONS						
Suspensions						
Companies	6	2	4	2	28	42
Individuals	21	0	11	40	44	116
Debarments						
Companies	18	0	6	6	18	48
Individuals	31	0	15	34	25	105

EXHIBIT 11
EXAMPLES OF MAJOR INDICTMENTS, CONVICTIONS OR RECOVERIES
OBTAINED BY DEPARTMENT OF DEFENSE CRIMINAL INVESTIGATIVE ORGANIZATIONS
(For the 6-Month Period Ending September 30, 1994)

Type of Case	Entities/Persons	Sentence/Fine/Recovery/Settlement	DoD Activity
1. Product Substitution	Schoonmaker Service Parts Company, Inc.	Company president sentenced to 1 year incarceration, a \$4,000 fine and restitution of \$800,000	DCIS
2. Product Substitution	Lucas Industries, Inc	\$12 million in fines and restitution	DCIS/ AFOSI
3. Cost Mischarging	Boeing Company	\$75 million civil settlement	NCIS/DCIS
4. Cost Mischarging	TRW, Inc.	\$29 million civil settlement	DCIS
5. Cost Mischarging	Support Systems Associates, Inc.	\$400,000 civil settlement	NCIS
6. Defective Pricing	Raymond Engineering, Inc.	\$765,993 civil settlement	NCIS/ DCIS
7. Defective Pricing	Dynamics Research Corporation	\$1.79 million civil settlement	DCIS
8. Defective Pricing	Martin Marietta Corporation	\$6.3 million civil settlement	DCIS/ AFOSI
9. Defective Pricing	Teledyne Industries, Inc.	\$112.5 million civil settlement	DCIS/ AFOSI/ NCIS/ CIDC
10. False Claims	Rohr Incorporated	\$3.686 million criminal fine, \$4 million civil settlement and \$2 million reserve to guarantee warranty performance	DCIS/ AFOSI
11. False Claims	Litton Systems, Inc.	\$82 million civil settlement	DCIS/ AFOSI/ NCIS
12. False Claims	Analex Corporation	Company sentenced to 1 year probation, \$10,000 fine, \$200 special assessment and \$6 million civil settlement	DCIS/ AFOSI
13. False Claims	Naomi Aquiningoc	Sentenced to 21 months imprisonment, 3 years supervised release, \$200 special assessment and \$169,068 restitution	DCIS

EXHIBIT 11 - CONTINUED
EXAMPLES OF MAJOR INDICTMENTS, CONVICTIONS OR RECOVERIES
OBTAINED BY DEPARTMENT OF DEFENSE CRIMINAL INVESTIGATIVE ORGANIZATIONS
(For the 6-Month Period Ending September 30, 1994)

Type of Case	Entities/Persons	Sentence/Fine/Recovery/Settlement	DoD Activity
14. False Claims	Triad Microsystems I	\$600,000 in treble damages, \$5,000 civil penalty and return of \$3,767,811 in unliquidated progress payments	CIDC
15. Health Care Fraud	NME Psychiatric Hospitals, Inc.	\$348.2 million in administrative damages and penalties	DCIS
16. Health Care Fraud	Michael Smushkevich, Bogich Jovovich	Smushkevich sentenced to 21 years incarceration and fined \$2.75 million, Jovovich sentenced to 20 years incarceration and fined \$500,000	DCIS
17. Foreign Military Sales	Sylvan Friedman, President, Multi-Modal Freight Systems, Inc.	Sentenced to 70 months imprisonment and \$1.129 in criminal fines and restitution	DCIS

CHAPTER 4 - OTHER INVESTIGATIONS

The Assistant Inspector General for Departmental Inquiries exercises direction and control over the DoD Hotline and two administrative investigations elements--Special Inquiries and Program Integrity.

During the period, equal opportunity issues, whistleblower reprisal protection, and investigation of allegations against senior officials were the major focus of the organization. Special Inquiries opened 130 cases and closed 105 cases, in which 17 (13 percent) involved allegations that were substantiated. Program Integrity and its Military Service IG counterparts opened 218 cases and closed 184 cases, of which 32 (17 percent) involved allegations that were substantiated.

Participation in the Defense Equal Opportunity Council Task Force on Discrimination and Sexual Harassment

In May, we briefed the Task Force, co-chaired by the Secretary of the Air Force and the Under Secretary of Defense for Personnel and Readiness and composed of senior officials responsible for Equal Opportunity matters within DoD and the Military Departments, on the results of our "Review of Military Department Investigations of Allegations of Discrimination by Military Personnel." That report was issued in March, 1994, and was reported in our last submission. We have participated in the weekly meetings of the Task Force and have offered comments on the issues under consideration.

We recently reviewed the Task Force's proposed report and found that it properly identified policy and procedural issues warranting changes in the DoD Equal Opportunity Program. We have recommended that the Task Force not seek to be discharged from its mission until revised regulations necessary to implement the Task Force recommendations are created, coordinated with DoD components, and approved by the Secretary of Defense.

Review of the Army and Air Force Inspector General Administrative Investigation Processes

At the request of the Chairman and Ranking Minority Member, Subcommittee on Investigations, House Armed Services Committee, we initiated a review of the processes and procedures used by the Army and Air Force Inspectors General in conducting administrative inquiries. A related review of Navy Inspectors General was completed by the General Accounting Office in September 1994. We expect to complete our reviews by April 15, 1995.

Military Whistleblower Reprisal Program

Amendment of Military Whistleblower Statute: The Fiscal Year 1995 Authorization Act contains an amendment to the Military Whistleblower Statute, Title 10, United States Code, Section 1034, which expands the statute's coverage to include complaints of discrimination and sexual harassment made to equal opportunity officials or to anyone within the military chain of command designated to receive such complaints. To implement the amendment, a revision to the DoD regulation on Military Whistleblower Protection, DoD Directive 7050.6, is now in coordination.

Psychiatric Evaluations: During fiscal year 1994, we investigated 13 complaints that military members underwent psychiatric evaluations in reprisal for whistleblowing or that the referrals were otherwise improper. We substantiated one complaint. Information regarding that case was provided in the last semiannual report.

SPECIAL INQUIRIES/PROGRAM INTEGRITY

The Special Inquiries Directorate provides the IG, DoD, with a capability to investigate allegations of improprieties in all areas of DoD programs and operations.

The Program Integrity Directorate provides a central point for the oversight of investigations involving allegations against senior military and civilian officials within the DoD. The Directorate also conducts investigations at the direction of the IG, DoD.

Military Whistleblower Reprisal

Representative Case Findings

- A National Guard pilot was reprimed against for reporting that his company commander allowed pilots to fly excessive hours, required membership in a private organization, and engaged in other improprieties. The pilot was removed from flight status, causing a loss of flight pay, and received negative comments on his Officer Evaluation Report (OER). Further, the company commander also influenced superior officers to refer the pilot for psychiatric evaluation. The Acting Adjutant General for the State of Oregon issued disciplinary action to five of his subordinate officers ranging from oral admonishment to written reprimand with OER input and reassignment. The pilot was restored to flight status and received back pay and reimbursement for his expenses. His official file was reviewed to ensure it contained no adverse information related to this matter. (H93L54783133)
- An Army physician received a referral OER in reprisal for disclosures to an Army Inspector General regarding physician certification requirements. We recommended the OER be removed from his official file and that the Army consider appropriate disciplinary action against those responsible for the reprisal. (H93L55129183)
- An Air Force captain received a letter of reprimand, two referral OERs, and a recommendation for a Meritorious Service Medal was withdrawn in reprisal for his disclosure to the Air Force Inspector General regarding mismanagement of

resources and unprofessional conduct by a superior. The member's records have since been corrected, and he has been promoted to the rank of major. (O93L55238186)

- An Air Force senior master sergeant received a lowered enlisted performance report in reprisal for reporting mismanagement. The performance report was removed from his official record, and he was considered by a subsequent promotion board. (H93L53138042)
- An Army captain at received a lowered OER in reprisal for protected disclosures regarding racial discrimination, assault and misconduct. We recommended the OER be removed from the captain's official personnel file and that appropriate action be considered against the rating officials for the period in question. (S93T00000045)
- An Army sergeant received three counseling statements in reprisal for protected disclosures to Members of Congress on improper accountability of property and poor maintenance procedures. The Army contended the counseling statements were required by regulation when resolving congressional inquiries. However, we determined the counseling statements were disciplinary in nature, and not in keeping with the intent of the policy/regulation. The statements were removed from the sergeant's record, and the Army eliminated the requirement to use counseling statements as part of congressional inquiries. (H93T52853023)

Contractor Whistleblower Reprisal Program

Section 6005 of the Federal Acquisition Streamlining Act of 1994 repealed Section 2409a of Title 10, United States Code, and amended Section 2409. The statute protects employees of Defense contractors from reprisal. The amended Section 2409 simplifies and codifies the broad coverage and remedies for reprisal applicable to Defense contractor employees.

In our last submission, we reported we had never substantiated reprisal by a Defense contractor. During this reporting period, we substantiated reprisal against two contractor employees. Recommendations for corrective action were made to the Defense Logistics Agency under Defense Federal Acquisition Regulation Supplement 203.71.

Substantiated Contractor Whistleblower Reprisal Cases

- ° A contractor employee was terminated in reprisal for his wife's disclosure of wrongdoing on the part of his supervisor. We recommended the Secretary of Defense issue an order to the McCarty Corporation to cancel the termination and award him back pay and benefits. (H93L55847227)
- ° A contractor employee was removed from his position as Construction Quality Control Representative in reprisal for reporting contract deviations to the Navy. We recommended the Secretary of Defense issue an order that the company award the employee back pay for the period during which he was replaced as Construction Quality Control Representative. (S93L00000195)

In a case not covered under Section 2409 of Title 10, United States Code, a concessionaire at the Randolph Air Force Base Exchange was reprised against--her contract was not renewed--for reporting possible illegal actions by another concessionaire to the Immigration and Naturalization Service. The contract of the reprised-against concessionaire was subsequently renewed. (H94L57196113)

Additional Significant Findings

Improper Reimbursement for Travel - P93L54052089

A senior Army civilian was improperly reimbursed for travel to his new permanent duty station during the period July 3, 1988 through December 31, 1988. He was permitted to remain in a temporary duty status after his official duty station changed. We recommended the Army recompute travel and per diem entitlements for the period and take payment or recoupment action as warranted.

Inadequate Mental Health Evaluations

The wife of a former enlisted member alleged that her husband was not given adequate mental health evaluation or treatment by Navy mental health professionals; rather, that the Navy pursued disciplinary actions which resulted in his release from active duty with an other than honorable discharge. At our request, the Acting Assistant Secretary of Defense for Health Affairs reviewed the evaluation and treatment and found them deficient. The member was advised that he may apply to

the Board for the Correction of Naval Records to change the status of his discharge. (H93C54798128)

The mother of a Navy enlisted member who committed suicide requested an inquiry into the Navy handling of her son's mental health treatment. We found a Navy psychologist determined the member to be a danger to himself and others if not discharged from the Navy and, nevertheless, recommended the member be discharged without further evaluation or treatment. The member committed suicide while on administrative leave pending his discharge from the Navy. We requested the Acting Assistant Secretary of Defense (Health Affairs) (ASD(HA)) evaluate the mental health evaluation performed by the Navy and expressed our concern regarding Navy procedures and policies regarding suicide prevention and treatment. (H93C53934074)

In both cases, the Assistant Secretary of the Navy (Manpower and Reserve Affairs) agreed with the OASD(HA) assessment and requested the Surgeon General of the Navy determine whether a hearing would be appropriate, which could result in measures to curtail the privileges of the mental health providers. We are monitoring this activity.

DoD Hotline

The DoD Hotline continues to be an effective method for DoD employees, military members, DoD contractor employees and the public to report instances of fraud, waste and mismanagement within the DoD. To date, the Defense Hotline has recorded savings to the DoD totaling over \$217 million. The savings were achieved as a direct result of audits and investigations initiated in response to information provided to the DoD Hotline.

Departmental Inquiries staff provided briefings to seven classes at the Department of the Army Inspector General Academy, Fort Belvoir, Virginia. Typically, the briefings included an overview of DoD Hotline operations, the Inspector General, DoD, mission and the relationship between the Military Service Inspectors General and the Inspector General, DoD.

A 1-week training seminar was provided to an employee of Headquarters, Army and Air Force Exchange Service (AAFES). The need for this specialized training was determined during an

operational evaluation of the AAFES Hotline conducted by the DoD Hotline staff in January 1994.

During this period, the Hotline staff conducted quality assurance reviews of Hotline operations within the U.S. Marine Corps, the Naval Sea Systems Command, and the Pacific Air Forces Command.

A notable shift in the types of complaints received through the Hotline continues. Allegations involving contracting and procurement irregularities have declined while sexual harassment, reprisal and miscellaneous personnel complaints have increased. Exhibit 12, page 4-5, provides an analysis of the DoD Hotline activity.

Significant DoD Hotline Findings

Defense Hotline Case #89-T-46257 - Test Data Falsification

A joint investigation by the U.S. Army Criminal Investigation Command (CIDC) and the Federal Bureau of Investigation (FBI) substantiated allegations that a Government contractor falsified test data in connection with a U.S. Army radio. The contractor employees pled guilty to conspiracy and making false statements and were sentenced to 6 months home confinement, 36 months supervised probation, and fined. The contractor agreed to pay a global settlement package and fines totalling \$20,824,731. Additionally, the contractor employees were debarred from U.S. Government contracting for periods of 2 and 3 years (CIDC/FBI).

Defense Hotline Case #92-T-52505 - Bid and Proposal Waste

An investigation by the Defense Criminal Investigative Service (DCIS) substantiated an allegation that two contractors entered into a teaming agreement on an Army contract modification in violation of Section 1 of the Sherman Act. A civil antitrust suit against the contractors was filed and, under the terms of the consent judgment, each contractor agreed to pay \$2,047,500. Additionally, an administrative recovery of \$7,869,389 was collected from the contractors on funds previously spent after the Army signed a contract modification reducing the total value of the contract. Total recovery in the investigation was \$11,964,398 (DCIS).

Defense Hotline Case #90-C-48026 - Product Substitution

An investigation by the Defense Criminal Investigative Service (DCIS) substantiated that the supplier/subcontractor on a DoD contract substituted dry reconstituted baby lima beans for the fresh baby limas specified by the contract. The subcontractor agreed to pay the DoD \$767,410 in a civil settlement agreement. The Assistant U.S. Attorney declined criminal prosecution of the subcontractor due to lack of perceived criminal intent (DCIS).

Defense Hotline Case #86-T3519 - Labor Mischarging

The DCIS substantiated allegations that a Navy contractor had mischarged \$5,000 in labor costs. The investigation also disclosed other mischarging schemes. Total loss to the Government was approximately \$243,281. A settlement agreement was reached, and the contractor agreed to pay the Government \$250,000 in civil damages.

Defense Hotline Case #87-G-34115 - Cost Mischarging and False Billing

An investigation by the Naval Criminal Investigative Service (NCIS) revealed a Navy contractor engaged in labor cost mischarging and various false billing schemes. The president of the contracting firm was convicted of one count of conspiracy to defraud the Government. He was sentenced to 5 years confinement, 3 years supervised probation, \$100,000 fine and \$90,000 restitution. (NCIS/DCAA).

Defense Hotline Case #92-T-52301 - Abuse of Company Automobile

An audit by the Defense Contract Audit Agency (DCAA) substantiated allegations that a contractor employee used the company automobile for personal use, which was contrary to written company policies. The audit further disclosed that the contractor did not screen the costs associated with personal use of automobiles assigned to individuals. The contractor was requested to review the matter and identify unallowable costs in fiscal years 1989 through 1992. The DCAA audit and the contractor's review resulted in approximately \$54,400 savings to the Government. (DCAA)

Defense Hotline Case #93-T-54053 - Waste of Government Funds

An Army inquiry was initiated into allegations that a senior officer at an Army installation planned a training field trip for his military and civilian personnel to a Civil War historical site. The trip had no job-related benefits, and the use of the planned administrative leave was not authorized. The trip was cancelled, saving approximately \$40,000. (TEXCOM)

Defense Hotline Case #90-T-47546 - Collusive Bidding

A DCIS investigation revealed that the owner of a company submitted collusive bids on Government contracts for hand-held emergency lights on behalf of his company and another company in which he held an executive position. Pursuant to a plea agreement, the owner pled guilty to one count of mail fraud (18 U.S.C. 1341) and was sentenced to 3 years probation, fined \$10,000 and paid a special assessment of \$50. No prosecutive action was taken against the other company. (DCIS)

EXHIBIT 12 DoD HOTLINE PROGRAM ANALYSIS (For the period ending September 30, 1994)	
Program Analysis	Totals
Calls and Letters	
DoD Hotline	4,361
GAO Hotline	49
Other Sources ¹	122
Total (excludes 2,852 contacts requesting information or wrong numbers)	4,532
Disposition	
Substantive Allegations:	
Referred to DoD components for action (investigation, audit or inspection)	1,065
Referred to other Federal Departments and Agencies	28
Referred to DoD components for information (no investigation required)	542
Hotline source asked to contact cognizant agency directly (allegation appears to warrant some action, but not by the OIG, DoD)	250
Supplemental and followup contacts with Hotline sources ²	447
Subtotal (Substantive allegations)	2,332
(Nonsubstantive Allegations) ³	2,200
Total	4,532
Status of Allegations Referred to DoD Audit, Inspection And Investigative Components	
Cases closed during period	1,420
Open end of period	1,638
¹ Consists mainly of letters sent to the DoD Hotline of other Federal agencies. ² Reflects calls of an administrative nature inappropriate for Hotline action and follow-up calls made to and from the Hotline about ongoing cases. ³ Contained insufficient data for action or did not fall into one of the categories under substantive allegations.	

CHAPTER 5 - INSPECTIONS

MAJOR CONCERNS

Management of Digitized Technical Data (Continuous Acquisition and Life-cycle Support Initiative (CALS))—Strategy versus Program

An inspection found that the DoD did not clearly identify what the initiative to digitize technical data for weapon system acquisition and logistics support should be, what it should encompass or how it should be implemented (page 5-2). Confusion exists in the DoD and industry over whether the CALS initiative is a strategy or a program. The confusion has resulted in an ineffective management structure, late allocation of funds, a lack of policies on reimbursement for operating funds and a lack of specific guidelines needed to acquire and manage digitized technical data in the DoD.

Resources Management at the Selective Service System

At the request of the Senate Appropriations Committee, an inspection was conducted to determine how the Selective Service System determines its requirements and manages and controls its resources to perform its mission (page 5-2). The Selective Service System has not formally revised many of its peacetime and mobilization requirements since 1980. There are significant inconsistencies between the capacity of the DoD to train inductees and the mobilization plan of the Selective Service System.

Implementation of the Panama Canal Treaty of 1977

Systemic problems concerning intra-DoD and international coordination of the Panama Canal Treaty of 1977 surfaced during an inspection of the U.S. Southern Command (page 5-3). The 1977 treaty requires the relocation, withdrawal or deactivation of U.S. forces and equipment from Panama and the turnover of all DoD facilities and real estate to the Government of Panama prior to December 31, 1999. The inspection found that components have not learned from past experiences with relocations and property turnovers how to avoid transition problems. In addition, agreements between DoD and Panamanian officials on implementation of the treaty are not sufficiently specific, increasing the potential for future misunderstandings of DoD obligations as we leave Panama.

This chapter contains inspection information from the Assistant Inspector General for Inspections (AIG-INS) and the Inspectors General of the Army, Navy and Air Force.

The activities of the inspection organizations for evaluating program economy, efficiency and effectiveness and for preventing fraud, waste and mismanagement are included in this chapter. The traditional military Inspectors General roles are not.

SIGNIFICANT OIG, DoD INSPECTIONS

The AIG-INS performs worldwide inspections and program evaluations in areas of concern to the Congress, the Secretary of Defense, the OSD Principal Staff Assistants, the Joint Staff and the Directors of the Defense Agencies. The inspections and evaluations provide managers with a balanced look at the effectiveness of an organization or program.

Management of Digitized Technical Data

An inspection assessed the management of the DoD efforts to digitize technical data for weapon system acquisition and logistics support. We found problems in the management, planning and implementation of the Continuous Acquisition and Life-cycle Support (CALS) initiative. We found that:

Strategy versus Program

Confusion exists in the DoD and industry over whether the CALS initiative is a strategy or a program. That has resulted in an ineffective management structure, late allocation of funds, a lack of policies on reimbursement for operating funds and a lack of specific guidelines for the acquisition and management of digitized technical data in the DoD. We recommended the Under Secretary of Defense for Acquisition and Technology staff a decision paper to determine if the DoD should continue with the CALS initiative. Management nonconcurred and stated that the intent of the recommendation will be satisfied in the DoD CALS Implementation Plan, scheduled for draft release in 1994.

Infrastructure

The Joint CALS system was not sufficiently defined to field activities to provide a clear understanding of implementation requirements. We recommended the establishment of an interagency plan of action, with milestones and dates for expansion of the Joint CALS system from its prototype test sites. Management concurred.

Policies and Procedures

No policies exist that identify users, funding or hardware for the Joint CALS system. We recommended the revision of Defense acquisition management directives and instructions.

Management concurred with our recommendations. (94-INS-05)

Selective Service System

At the request of the Senate Appropriations Committee, we conducted an organizational management inspection to examine how the Selective Service System (SSS) determines its requirements and manages its resources to perform its mission. The inspection expands and complements a 1992 manpower and workload study, conducted at the request of the SSS by the U.S. Army Force Integration Support Agency (USAFISA). The major issues and recommendations are:

Resource Management

The DoD peacetime and wartime mobilization requirements have not been revised since 1980. We recommended the agency establish a formal review process to ensure that mobilization requirements are consistent with current DoD assessments.

Management Programs

The USAFISA study recommended an outside agency review and reclassify all agency positions to address overgrading concerns. Instead, the SSS conducted an internal review. Only two grade changes were made--both upward. We concurred with the USAFISA recommendation.

Internal Controls

The SSS internal control program is adequately designed but the program is inadequately executed. The SSS was unable to properly account for property valued at approximately \$4.5 million. Additionally, SSS financial management processes did not identify that too much money had been obligated to reimburse the DoD for SSS expenses. As a result, \$8 million that might have been used by the SSS for unfunded requirements was not available. We recommended the SSS assess its internal control processes to identify and implement measures to ensure managers continuously evaluate the adequacy of the controls. Management partially concurred with our recommendations. (94-INS-10)

Review of the Hiring and Promotion Practices at the National Security Agency

The review was conducted in response to a request from Senator Barbara A. Mikulski. In addition to analyzing the hiring and promotion practices of women and minorities at the National Security Agency (NSA), we also evaluated the adequacy of the discrimination complaint resolution process.

The NSA has not identified systemic problems and barriers faced by women and minorities in recruitment, hiring, promotion or career development. Additionally, the NSA does not compile or analyze the data needed to take appropriate corrective action to remove the barriers.

Recommendations were made to address the shortcomings in the NSA practices regarding women and minorities. The recommendations focused on better communication between the personnel office, the Equal Employment Opportunity office and agency selecting officials. The Director, NSA, accepted and intends to implement our recommendations. A number of initiatives were implemented that address issues in our report. The actions taken and proposed by the NSA are fully responsive to our recommendations. (94-INS-04)

U.S. Southern Command (USSOUTHCOM)

The inspection evaluated the efficiency and effectiveness of the processes used by the command to carry out its assigned missions. Significant positive aspects in the management of USSOUTHCOM include the effective use of the Integrated Priority List and the Commanders in Chief (CINC) Preparedness Assessment Report to identify resource shortfalls, an effective long-range planning process and an extensive counternarcotics operation. The major issues and recommendations include:

Treaty Implementation

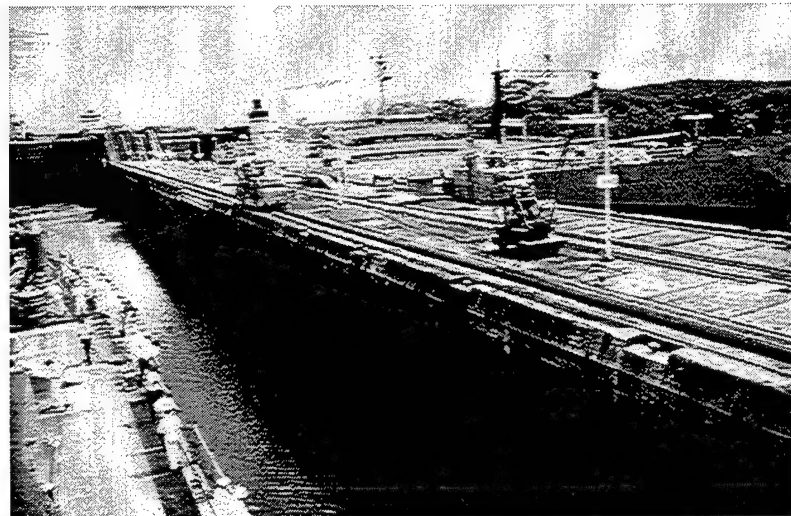
The USSOUTHCOM has not incorporated the lessons learned from previous treaty related events into its plans to implement the The Panama

Canal Treaty Implementation Plan (PCTIP). We recommended that the lessons learned be reviewed and addressed in execution plans to avoid prior problems and that the proposed date for relocation of the USSOUTHCOM headquarters be revised. Management concurred.

Resource Management

The Joint Chiefs of Staff process guidance did not ensure that Integrated Priority Lists (IPLs) clearly identify priorities for resource requirements in a format readily useful to programming staffs. We recommended that the CINC clearly state the priority of their capability requirements. We also recommended establishing procedures that ensure changes to IPL requirements are coordinated with the CINC before publication of the Service Program Objective Memorandum.

The Joint Manpower Program does not provide a means of determining and comparing the relative priority of competing demands for manpower. We recommended the Joint Staff develop and implement procedures to assign relative priority to the manpower requirements of joint activities and to fill those requirements in accordance with their relative priority. Management concurred with our recommendations.



Panama Canal

Preparedness Assessment

The USSOUTHCOM does not make effective use of all available readiness information to assess the command's ability to perform assigned missions. We recommended the designation of a single office to collect, analyze, review, monitor and evaluate all available readiness information on a continuing basis. Management was partially responsive to our recommendation. Resolution pending. (94-INS-06)

Defense Commissary Agency (DeCA)

The inspection evaluated resourcing, internal management, administrative programs and oversight processes. The DeCA is making significant progress in consolidating the four separate commissary systems under one agency, taking actions to develop and implement common policies, procedures and business systems, and implementing cost saving initiatives. Major issues and recommendations are:

Strategic Planning

A strategic plan defining mission, primary goals and objectives was published 13 months after the DeCA was established. However, quantifiable indicators enabling managers to measure progress in achieving organizational goals were not established. We recommended the Director of the DeCA closely monitor and continually test and validate the goals, objectives and measurement standards in the strategic plan. Management concurred with our recommendation.

Manpower Requirements

The manpower requirements determination process has not been completely implemented. We recommended establishing mechanisms to validate workload data used in determining manpower requirements. We also recommended development of a plan of action for conducting operational improvement studies. Management concurred with our recommendations.

Civilian Personnel Management

The Agency does not provide adequate oversight of its civilian personnel management program. We recommended a mechanism be developed to evaluate and improve systems to ensure fair and economical use of human

resources. Management concurred with our recommendations.

Oversight

Delays in developing and distributing Management Control Review Checklists impeded comprehensive reviews of commissary operations for the 1993 statement of assurance. Additionally, no formal accountability for internal management control successes or failures was established. We recommended establishing procedures to ensure complete and timely evaluation of assessable units that support the Agency statement of assurance. We also recommended that personnel performance plans and appraisals reflect unit manager accountability for management controls. Management concurred with our recommendations. (94-INS-13)

Defense Contract Management Command (DCMC)

The inspection assessed the efficiency and effectiveness of the processes used to plan, report, manage oversight and provide customer feedback in the DCMC as they pertain to Defense Management Report Decision (DMRD) 916, which consolidated the contract administration services under the Defense Logistics Agency.

The DCMC implementation of DMRD 916 has consolidated, streamlined and standardized the contract administration services functions. Major issues and recommendations include:

Manpower Management

The DCMC does not have a consistent command-wide process for reviewing and projecting manpower requirements based on quantitative and qualitative workload measurement techniques. We recommended the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) work with the DoD components to develop manpower requirements analysis methodologies and establish an oversight mechanism. We also recommended the DCMC establish consistent command-wide manpower requirements analysis methodologies. The USD(P&R) did not respond to the first recommendation. We requested the USD(P&R) provide a plan and milestones for implementation of the recommendation. The DCMC management concurred with the second recommendation.

Program Support

The DoD regulations do not clearly define and establish the DCMC role and program support responsibilities. We recommended the Under Secretary of Defense for Acquisition and Technology (USD(A&T)) clearly define the DCMC program support responsibilities. The USD(A&T) concurred.

Property Oversight

The DCMC continues to have problems with the management of Government property in the hands of contractors. We recommended the Command ensure that the property management process chapter in a reference source currently under development contains oversight mechanisms. We also recommended verifying that the required number of property administrators are in place to provide an aggressive oversight program for Government furnished property. Management concurred. (INS-94-12)

Source Selection Process

An inspection assessed the adequacy of planning, execution, resources and oversight of the source selection process. The process encompasses the evaluation and analysis of a company's (source) proposal for providing goods and/or services to the Government and the Department's/Service's selection of that source. The process steps are well defined, provide a means to reach a decision and are generally followed. However, the inspection highlighted problems with "Best Value" solicitation procedures, procurement integrity, evaluator training, evaluation factors policy and acquisition streamlining. Major issues and recommendations include:

Planning

Requests for Proposal (RFPs) do not describe requirements with sufficient specificity to facilitate offers based on "Best Value" in competitive, negotiated procurements. We recommended the establishment of descriptive guidelines on when to use and how to structure "Best Value" in procurements.

The DoD guidance on the release of weights assigned to evaluation factors is confusing and we recommended the Under Secretary of Defense for Acquisition and Technology (USD(A&T)) clarify regulatory guidance covering the release of weights in RFPs.

The Military Departments and Defense Agencies, with the exception of the Defense Information Systems Agency and the Defense Nuclear Agency, concurred with our recommendations concerning "Best Value" guidance. The Director, Defense Procurement, responding for the USD(A&T), nonconcurred with our recommendation on evaluation factor weights. Resolution pending.

Execution

The Military Services do not sufficiently train evaluation board members. We recommended procedures be implemented to ensure board members are trained prior to the execution of their duties. We also found that procurement integrity provisions are not enforced. We recommended establishment of appropriate oversight procedures and clarification of instructions for certification statements. Management was responsive to our recommendations.

Controlling the Process

There was no evidence of attempts to measure the effects of streamlining initiatives. We recommended the USD(A&T) require the collection, maintenance and analysis of source selection time and cost data to establish a baseline for measuring the success of streamlining initiatives.

The Director, Defense Procurement, acknowledged the recommendation but did not agree to direct a new administrative requirement. The Military Services and Defense Agencies nonconcurred with the recommendation. Resolution pending. (94-INS-09)

Washington Headquarters Services (WHS)

The WHS provides administrative and operational support to specified activities in the National Capital Region. We evaluated the WHS ability to effectively and efficiently plan, organize, direct and control its organization, as well as actions taken to correct problems identified in our 1990 inspection. Significant progress had been made to improve the overall management of the WHS and to correct previous problems. Major issues and recommendations include:

Planning

Manpower, supply and property management plans are not in place to assist managers in ensuring efficient use of resources. The WHS managers do not effectively use customer feedback to reallocate resources as priorities and requirements change. We recommended establishment of an organizational planning process to anticipate emerging requirements, develop policies and ensure accountability.

The planning process does not provide adequate policies and procedures to ensure that DoD financial management policies are followed. We recommended the establishment of management policies and procedures ensuring that fund managers comply with statutory and regulatory requirements.

Management was partially responsive to our recommendation on planning and concurred with our recommendation on financial management policies. Resolution pending.

Oversight and Management Controls

The WHS has not developed or implemented performance measures to complement management controls and oversight mechanisms. We recommended development of a management process to proactively solicit customer feedback and the development of improved workload measurement mechanisms to control overtime work. Management was responsive to our recommendation. (94-INS-07)

Defense Support Activities (DSAs) Providing Technical and Analytical Support to the Office of the Secretary of Defense

An inspection was conducted to determine if DSAs are efficiently and effectively providing technical and analytical support to OSD and other DoD elements. We also examined actions taken to address problems with the activities noted in our 1989 inspection of DSAs.

Inspectors identified problems in policy compliance, organizational structure and relationships, resource management and oversight. We also found that corrective actions did not correct problems identified during our previous inspection.

Further, the DSA organizational category permits uncontrolled growth of staff, resulting in excess layering and indirect lines of authority and control. We recommended disestablishing the DSA organizational category and assigning personnel and their manpower spaces to the sponsoring staff elements. Management nonconcurred with our recommendations. Resolution pending. (94-INS-08)

Defense Finance and Accounting Service (DFAS)

A review was conducted of the organization and implementation of Defense Management Report Decisions related to the DFAS. We found the DFAS has not adequately established, controlled or standardized the processes necessary to provide efficient finance and accounting services to the DoD. Further, the DFAS has not implemented adequate controls over key functional areas of responsibility within the organization. While no specific recommendations were made, observations that could improve DFAS operations were provided during the field visits. (94-INS-11)

Specialized Military Training

A review found that the knowledge, skill, attitude and operational environment required to conduct peace operations are complex enough to warrant training beyond that currently received by individuals in the Military Services. While such training initiatives are taking place, the following areas need improvement: military observer training, staff and interagency training and the use of existing resources. Three recommendations were made to the Deputy Assistant Secretary of Defense (Peacekeeping and Peace Enforcement Policy) to enhance peace operations training initiatives in the short term.

Peace Operations Sourcebook

We prepared a compendium of points of contact active in peace operations-related activities, such as training, doctrine-writing and military education curriculum, as well as a bibliography of peace operations-related documents. The document serves as a resource for those individuals within the United States and the international community involved in peace operations initiatives.

Catalog of Peace Operations Training Activities

Information about peace operations training activities in the United States, 30 foreign countries and

three international organizations was compiled in a single document. The Catalog provides information about activities taking place in training development and programs, education curriculum and doctrine development, as well as conferences and other fora where peace operations activities are discussed.

Review of the U.S. Mission to NATO

A review was conducted of the assignment of DoD personnel in the U.S. Mission to NATO. We investigated a general allegation of "empire building" by DoD personnel who were not subject to the 4-year rotation policy governing Department of State personnel. No flagrant or intentional "empire building" actions were taking place. Personnel did, however, pursue their objectives in a way that created the appearance of preferential treatment of some individuals. That has led to an understandable interpretation that personnel assignment actions were based on a sense of "cronyism" and self interest.

Department of Defense Efforts to Clean Up Impact Ranges

A review determined that clearly defined requirements, management roles and responsibilities, and effective oversight mechanisms were not in place to ensure impact ranges are cleared of explosive ordnance waste. The DoD could improve its ordnance cleanup efforts by working with Federal and state regulators to develop acceptable cleanup standards, developing a funding strategy that addresses long-term cleanup needs, clarifying roles of managers involved in the cleanup process and expanding research and development in cleanup technologies.

Use of Animals in Medical Research Facilities

A review found that 52 DoD-contracted medical research facilities that use live animals are in substantial compliance with the Animal Welfare Act and Regulation. Based on our review of the research facilities and the management of research contractors in the DoD, we identified three recommendations to enhance the management of the animal care and use programs at facilities under contract with the Department.

Management of the Advanced SEAL (Sea, Air and Land Forces) Delivery System

A review found that the U.S. Special Operations Command has not been managing the Advanced

SEAL Delivery System acquisition program in compliance with DoD acquisition policy and guidance. The program involves an estimated life-cycle cost of over \$1.04 billion. Management problems delayed the program for over a year and put funding at risk. There are major weaknesses in requirements documentation and program oversight by the Chairman, Joint Chiefs of Staff, and the Assistant Secretary of Defense (Special Operations and Low-Intensity Conflict). Five recommendations were made to reduce program risks and increase the return on investments in the program.

SIGNIFICANT MILITARY DEPARTMENT INSPECTIONS

The Military Department and Defense Agency Inspectors General spend most of their time and resources on the traditional inspection roles of:

- performing unit and functional-oriented inspections that examine a command or activity to evaluate matters affecting mission performance;
- mediating between a complainant and the chain of command to resolve minor problems and grievances; and
- conducting specialized reviews and evaluations.

Examples of inspections conducted concerning program economy, efficiency and effectiveness and for preventing fraud, waste and mismanagement follow.

Army Inspections

Enlisted Reassignment System

An inspection was conducted to determine whether the enlisted reassignment system distributes the enlisted force in accordance with Army priorities and guidance, and to determine whether systemic policies and procedures unfairly burden soldiers and their families. The inspection found that the system effectively distributes the force in accordance with established personnel guidance, but some problems were found, such as:

- there are too many "no shows" because the system lacks internal discipline and the process for submission of deletions and deferments of assignment needs improvement;
- improved automation support for installations and theater personnel commands

would assist in more effective personnel management; and

- for 80 percent of the time, soldiers assignment preferences are not considered when managers make duty assignments.

Small Arms and Small Arms Repair Parts

An inspection found that, in general, the physical security and accountability of small arms and ammunition was adequate. Some problems were noted in weapons accountability, ammunition reconciliation, key control, personnel background checks and uniform physical security standards. The Army arms, ammunition and explosive policy was judged to be adequate.

The Army National Guard is not required to conform to the Army policy. The National Guard published its own regulations, which are less stringent than the Army guidance. The field is complying with most supply and maintenance small arms repair parts related policies, but several critical areas had substantial problems. Noncompliance was most evident in supply reconciliation, management, storage of pilferable and sensitive items, and demilitarization.

Military Pay Support to Army Personnel

An inspection focused on the impact of the Army transition to the new Defense Finance and Accounting System and, specifically, to the new system's ability to prevent and resolve pay problems. Most finance officers thought that transition training for Service members was adequate, but formal training for civilians was inadequate. The need for sustainment training was also documented. No two finance offices provided the same level of customer service. The current procedure to pay Army trainees was inefficient and often resulted in pay problems for the trainees at their first duty station. There were also problems with authorization letters designed to delegate approval authority from installation commanders to lower echelons. Problems also occurred because the pay data base did not agree or accurately exchange information with the personnel data base.

Navy Inspections

Bureau of Naval Personnel (BUPERS)

The BUPERS is a direct subordinate command of the Chief of Naval Operations, and its actions directly affect every officer and enlisted person in the Navy. Fleet commanders acknowledged that BUPERS management has instituted a fair and workable plan in the draw-down of naval personnel. The commanders have achieved directed end-strength targets, with minimum disruption to the fleet and individuals. The inspection found that:

- reduction in facilities, funding and personnel take place at most Navy training levels, and there is little flexibility in the training establishment to meet the varying needs of personnel assignments;
- lessons learned are not being adequately analyzed and put into policy for the management of pregnancies while on sea duty; and
- the BUPERS does not have a standard automated information system security awareness training program, and the risk management program is incomplete.

Commander-in-Chief, U.S. Naval Forces, Europe (CINCUSNAVEUR)

An inspection found:

- There has been no recent analysis of the costs and benefits associated with each activity and location in the CINCUSNAVEUR. In the current downsizing climate, all infrastructure in the European theater will come under increasing scrutiny, with particular emphasis on analysis needed for determining optimum locations and defending infrastructure requirements.
- The CINCUSNAVEUR Family Service Center civilian personnel manning has been negatively affected by the lack of adequate orientation training, training opportunities in-theater for maintaining professional certification and the cost of travel for training.
- Navy automated information system security requirements and processes have not been modified to include realistic implementation in the transition to automated desktop and writer-to-reader messaging.

Navy Occupational Safety and Health (NAVOSH)

The NAVOSH program oversight inspections found that overall compliance with the NAVOSH program is good. Most commands have viable programs to protect the safety and health of their employees. However, progress toward reducing the most common administrative and workplace deficiencies is slow. Training and hazardous material management and control continue to be the weakest administrative programs. Electrical safety, hazardous material control and machine guarding still account for the majority of workplace discrepancies.

Air Force Inspections

F-111 Stores Management System (SMS) Upgrade Program

At the request of the Congress, a review assessed the SMS upgrade program's \$75.8 million in-house engineering and manufacturing development effort. The review assessed the technical solution adopted to meet the Air Combat Command's requirement; the management of cost, schedule and technical risk; and the ability to complete the program on its current schedule and cost. The upgrade program was cancelled during the review in connection with the announced retirement of

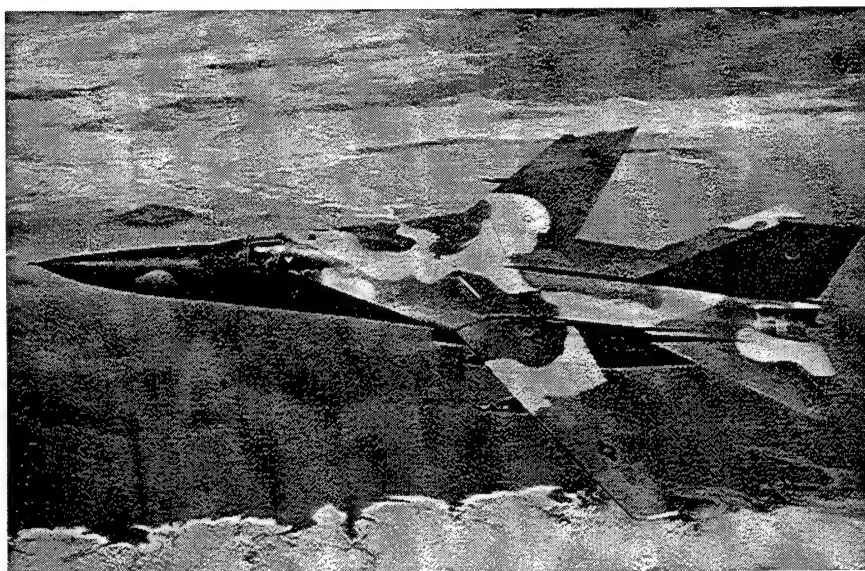
the F-111 fleet. The review continued and captured lessons learned to aid similar efforts and documented observations of possible acquisition process problems.

Aircraft Engine Oil Analysis Program (OAP)

A review assessed the Air Force OAP management of selected aircraft engines. The review found that management of the OAP was ineffective. The Joint Oil Analysis Program Manual contained inaccurate information, while aircraft maintenance organizations inconsistently documented aircraft engine oil servicing data. Inconsistent data input to the central database could lead to incorrect wear-metal limits that could affect aircraft flight safety.

Regionalized Nuclear Weapons Maintenance Concept (RNWMC)

A review was conducted to assess the effectiveness of the U.S. Air Force Europe (USAFE) RNWMC and to determine its effect on other major commands. The USAFE RNWMC was ineffectively constructed and implemented, and despite ongoing management efforts, program objectives were invalid. As a result, the program negatively impacted the Air Force nuclear surety environment, which may degrade critical nuclear weapons readiness.



F-111

CHAPTER 6 - SIGNIFICANT TESTIMONY AND PROPOSALS

CONGRESSIONAL TESTIMONY

Defense Financial Management

On April 12, 1994, the Deputy Inspector General and the Assistant Inspector General for Auditing testified before the Senate Committee on Governmental Affairs on financial management in the Department of Defense. The testimony noted that legislation passed by Congress, including the Chief Financial Officers Act and legislation closing Merged Accounts (M Accounts), focused attention on financial management problems. In recent years, the Office of the Inspector General (OIG) has greatly expanded its audit coverage of finance and accounting matters.

Causes of Financial Management Problems

The OIG, DoD, testimony identified some of the prominent causes of the current problems within the DoD as follow:

- the proliferation of unique information and management systems that are not compatible with one another;
- the lack of standard data elements for financial systems or a standard general ledger; and
- the habitual use of M Accounts as a source of funding to aid financially troubled weapons acquisition programs, which is no longer possible even though the fixed price development contracts of the 1980s resulted in many funding shortfalls.

Corrective Action Needed

To overcome existing financial management problems, the OIG testified that the following steps were essential:

- the active and sustained involvement of managers within the Department. The creation of the Senior Financial Management Oversight Council can be an effective mechanism for keeping officials involved;

- continued congressional interest;
- restoration of Antideficiency Act credibility;
- close monitoring of efforts to develop standard, modern automated data processing systems for financial management; and
- improvement in the management of the Defense Business Operations Fund (DBOF).

C-17 Airlifter Program

On May 17, 1994, the Deputy Inspector General appeared before the House Committee on Armed Services with the Deputy Secretary of Defense, the Under Secretary of the Air Force and the Commander of the Air Mobility Command at a hearing on the C-17 Airlifter program.

The hearing discussed the results of the Defense Science Board (DSB) Task Force review of the C-17 program and the business settlement with the McDonnell Douglas Corporation regarding contractual issues and claims.

The OIG participated in the DSB Task Force, which conducted a comprehensive review of the C-17 program. The Task Force reached the following conclusions:

- the C-17 is a good aircraft that will meet the Nation's military airlift needs;
- the negative environment between the contractor and the Government hampered progress on the program;
- McDonnell Douglas could successfully build the aircraft if management and efficiency improvement were implemented; and
- the Government and the contractor should agree to a comprehensive settlement to resolve all contractual issues, claims and program deficiencies.

The Deputy Inspector General testified in support of the business settlement. He stated that the settlement was in the best interest of the Government and did not constitute a bailout of the contractor. The settlement requires that McDonnell Douglas forgo potential claims, undertake additional flight testing, absorb the cost for wing redesign and invest \$100 million to improve productivity.

Implementation of the Chief Financial Officers Act

Hearings were held by the Subcommittee on Legislation and National Security of the House Committee on Government Operations and the Senate Committee on Governmental Affairs on the results of audits of DoD financial statements required by the Chief Financial Officers (CFO) Act of 1990. The Deputy Inspector General testified before the Subcommittee on Legislation and National Security on June 23, 1994. He was accompanied by the Assistant Inspector General for Auditing at the hearing before the Senate Governmental Affairs Committee on July 12, 1994.

The Department of Defense expends over \$40 million and uses over 500 full-time equivalent audit workyears to conduct audits required by the CFO Act. Even with that large effort, full audit coverage of DoD financial statements is not attained. The OIG does not believe expending additional resources to obtain full coverage would be productive because additional audits would likely find many of the same problems that have already been revealed. An appropriate level of oversight can be maintained by targeting audits where they would be most effective and ensuring that no fund goes more than 3 years without an audit.

Results of CFO Act Audits

The financial statements for most of the audited funds were seriously flawed and unsupportable. The results were expected based on experience from CFO Act audits conducted in 1993. The poor results also mirror the major problems that exist in day-to-day finance operations. Some of the common problems found with respect to financial statements include:

- DoD Form and Content Guidance was provided late, which complicated the conversion to a standard general ledger;
- financial statements were provided late to the auditors;
- errors were made in recording adjustments to account balances;

- transactions in some accounts were being accounted for on a cash basis rather than an accrual basis;
- valuation of plant, property and equipment was inconsistent among DoD funds; and
- DoD policy does not require management and financial officials to sign jointly representation letters attesting to the accuracy of financial statements. The policy conflicts with the Government Auditing Standards and the efforts to involve senior officials in financial improvement issues.

Indications of Progress

While overall results of the CFO Act audits were poor, the OIG noted some areas of progress:

- greater involvement and attention by management in trying to resolve financial management problems;
- improved understanding of accounting and adjusting processes by Defense Logistics Agency managers, improved controls by the Defense Finance and Accounting Service; and
- improvement in the policies and procedures of the Defense Business Operations Fund (DBOF).

The OIG endorsed expanding the requirement for preparing financial statements for all or nearly all Federal funds. The discipline involved in generating an annual financial statement would benefit day-to-day financial reporting and other facets of operations.

Oversight of National Foreign Intelligence Programs

On April 12, 1994, the Assistant Inspector General for Auditing testified before the Subcommittee on Legislation, House Permanent Select Committee on Intelligence, regarding oversight of intelligence programs.

The IG, DoD, is the principal advisor to the Secretary of Defense on the prevention and detection of fraud, waste and abuse in all DoD programs, operations and components, including Defense intelligence organizations such as the National Security Agency and the Defense Intelligence Agency. Those organizations are expected to follow the same audit, investigation, inspection and hotline

management policies as other DoD components. The OIG does not support the concept of statutory Inspectors General in individual Defense Agencies.

The Assistant Inspector General for Auditing informed the Subcommittee that audit and inspection coverage of intelligence programs has been expanded to ensure a reasonable level of oversight of that area. The OIG now has 50 full-time auditors and other specialists covering intelligence programs and provides additional coverage through audits having general applicability to DoD activities (e.g., contract administration, financial management and logistics).

To improve the effectiveness of oversight of intelligence programs, the following measures were proposed:

- providing a classified annex to the Semi-annual Report to Congress summarizing audit, inspection and investigative results pertaining to intelligence;
- establishing a formal planning process to ensure adequate oversight of joint programs; and
- working with the Congress to determine the need for coverage of specific programs and activities.

The Use of Animals In Department of Defense Research

On April 13, 1994, the Assistant Inspector General for Inspections testified before the Subcommittee on Research and Technology, House Committee on Armed Services, regarding the use of animals in DoD research. The testimony presented the findings of a review conducted in response to a request in the Report of the House Armed Services Committee to accompany the National Defense Authorization Act for Fiscal Year 1993 (House Report 102-527). The Report contained a request that the OIG determine whether animals used in DoD research are treated in accordance with the Animal Welfare Act, DoD regulations and rules of basic humaneness.

A report on the treatment of animals in DoD-owned facilities conducting medical research was issued in February 1994. A second report addressing animals in non-medical DoD-owned facilities and contractor-owned facilities conducting medical and nonmedical research was issued in August 1994.

Review Results

The review found that all the facilities demonstrate basic humaneness in the treatment of research animals. Two of the 36 facilities reviewed, one in Lima, Peru, and one in San Antonio, Texas, were found to have procedural weaknesses in complying with the requirements of the Animal Welfare Act. The facilities, however, were found to be providing humane treatment for the animals in their care and have taken steps to correct the deficiencies noted.

Recommendations

The report on the review contained four recommendations to enhance the quality of laboratory animal care:

- All research facilities should incorporate two "best practices" that were identified during the review: (a) command support for staff training and certification and (b) use of a formalized checklist when conducting semiannual inspections.
- The DoD should clarify guidance on the qualifications and characteristics of nonaffiliated members of the Institutional Animal Care and Use Committees (IACUCs). (The Animal Welfare Act requires that facilities have an IACUC to oversee its research program, each IACUC is to have at least one member who is not affiliated with the facility.)
- Facilities should consider adopting some of the "commendable practices" that were found in place at some locations (such as a Commander's Hotline, an Animal Incident Report and handbooks for members of IACUCs). Due to differences in the size of facilities, the types of animals used and the type of research conducted, not all of the "commendable practices" may be appropriate for all facilities.
- The DoD should develop a standardized research protocol request form.

The Military Facilities Planning Process

On June 22, 1994 the Deputy Inspector General and the Assistant Inspector General for Auditing testified before the Senate Committee on Governmental Affairs regarding the planning process for the construction of military facilities.

The Deputy Inspector General noted the importance of providing quality facilities for training and housing military forces, storing equipment and testing new weapon systems. At the same time, declining Defense budgets and the closure and realignment of military bases require that spending for new facilities be carefully thought out. While force structure has been reduced by 30 percent, a much smaller percentage of the base structure has been eliminated so far.

To ensure that the DoD has sound internal management controls for facilities planning, the OIG has been engaged in a systematic effort to evaluate the planning for military construction projects. Additionally, the OIG assists the Base Realignment and Closure (BRAC) process by validating data used by the BRAC decisionmakers and examining cost increases in construction projects needed to implement the BRAC decisions (a requirement of the Base Realignment and Closure Act of 1990).

Audits of military construction projects over the last 2 and 1/2 years questioned over \$1.4 billion of planned spending. The audits found that required economic analyses for construction projects are frequently incomplete, outdated, poorly documented or not done at all. The haste of the BRAC planning process led to a high percentage of project plans being questioned. A recent review of eight BRAC packages for fiscal year 1994 found that only 2 of 31 projects were fully supported.

Suggestions for Congress

The Deputy Inspector General offered three recommendations to the Congress as it considers funding for military construction:

- Military construction spending should be minimized until the BRAC process has run its course.
- Congress should be skeptical of "off budget" funding devices that could lead to the acquisition of facilities without proper oversight.
- Congress should insist that economic analyses and key data used to support construction projects are up to date.

Use of Section 8(a) Contracts

On July 27, 1994, the Deputy Inspector General testified before the Senate Committee on Small Business regarding the Small Business Administration (SBA) Section 8(a) program. The testimony expressed support for the program objective to encourage firms

owned by socially and economically disadvantaged individuals to participate in Government contracting. While the Department of Defense has been a leader in the use of small businesses, audits by the OIG indicate there are problems in the program that limit its effectiveness.

Need for Competition

Competition among Section 8(a) firms is imperative to ensure that the Government obtains goods and services in the most economical manner and promote the development of firms so they may graduate from the program and succeed in competitive markets. However, less than 3 percent of the participating firms receive over 56 percent of the total DoD contract dollars paid to Section 8(a) companies, which indicates that competition in the program is weak.

The Section 8(a) program has been used to circumvent the Federal Acquisition Regulation and avoid competition. The following are some of the problems identified by OIG audits:

- **Regulatory Loophole**--SBA regulations require use of the "guaranteed minimum value" to determine if a contract is above the threshold for awarding sole-source contracts; the OIG, DoD, recommended that contracts be evaluated based on the "estimated total lifetime value of the contract."
- **Contract Bundling**--DoD activities have consolidated task orders for similar requirements to avoid awarding multiple contracts.
- **Directed Sole-Source Contracts**--Section 8(a) firms have been used to pass through funds to other firms, a practice that circumvents competition and incurs additional administrative costs.
- **Brokering Arrangements**--contracts for automated data processing (ADP) procurements have been awarded to Section 8(a) firms that acted as brokers to obtain ADP supplies and services from other sources (the Walsh-Healey Act requires contracts for ADP equipment or services in excess of \$10,000 be with contractors who are manufacturers or regular dealers).
- **Restrictive Requirements Specifications**--overly restrictive specifications that reduce opportunities for competition.

RECOMMENDATIONS ON PROPOSED LEGISLATION

Federal Acquisition Streamlining Act, S. 1587

Audit Rights

The OIG expressed concern regarding a provision in S. 1587 that limits the Government's right to audit cost and pricing information for procurements of commercial items not based on adequate price competition. The provision restricts audits to information provided by a contractor. Auditors would also be limited to examining books and records directly related to the information provided. The OIG stated that, while it was not advocating post-award audits of commercial items, the restrictions would provide little assurance that a meaningful audit could be conducted, if needed. The provision was retained in the enacted version of S. 1587 (Public Law 103-355).

Office of the General Counsel

The OIG opposed an amendment proposed in the Senate that would require Inspectors General to employ their own legal counsel rather than rely on counsel provided by the Office of the General Counsel within their executive department. In letters to Senators John Glenn and William V. Roth, Jr., the OIG stated that its relationship with the Office of the General Counsel has been excellent and has the advantage of facilitating agreements with DoD managers to implement OIG findings and recommendations. In lieu of the proposal, the enacted version of S. 1587 requires that the General Accounting Office conduct a study evaluating the independence of legal advice provided to Inspectors General.

Intelligence Authorization Act for Fiscal Year 1995, H.R. 4299

The House-passed version of H.R. 4299 included a provision creating statutory Inspectors General for the National Security Agency (NSA) and the Defense Intelligence Agency (DIA). The OIG opposed the creation of multiple statutory Inspector General offices within the same Federal department or agency.

In letters to the House Committee on Government Operations, the House Committee on Armed Services, the House Permanent Select Committee on

Intelligence and the Senate Committee on Governmental Affairs, the OIG expressed concern that establishing statutory Inspectors General at the NSA and the DIA is unnecessary and would complicate rather than improve oversight of those agencies.

During the conference between the House and Senate on H.R. 4299, the House provision was dropped from the final version of the Bill.

Investigations of Allegations of Sexual Harassment, H.R. 4112

At the request of the House Committee on Armed Services, the OIG provided comments on H.R. 4112, "a bill to amend title 10, United States Code, to provide certain procedural and administrative safeguards for members of the Armed Forces making allegations of sexual harassment or unlawful discrimination."

The OIG expressed support for the goals of the legislation but recommended against creating a new provision under Title 10. Instead, the OIG recommended that the provisions of Section 1034, Title 10, prohibiting retaliatory personnel actions against military whistleblowers, be expanded to prohibit reprisals against individuals making allegations of sexual harassment or unlawful discrimination. That approach was adopted in Section 531 of the National Defense Authorization Act for Fiscal Year 1995.

CONGRESSIONAL TASKINGS

The Office of the Inspector General undertakes numerous projects in response to congressional requests contained in legislation or committee reports or received directly from Members of Congress or congressional committees.

Fiscal Year 1995 Authorization and Appropriations Bills

Federally Funded Research and Development Centers Executive Compensation

The OIG is to review the compensation paid by Federally Funded Research and Development Centers (FFRDCs) to officers and employees who are paid at a rate greater than the Executive Level I rate. A report is due to the Congress by May 1, 1995. (Section 217 of the National Defense Authorization Act for Fiscal Year 1995)

A-76 Commercial Activity Contracts

The OIG, DoD, is to review a representative sample of existing contracts for commercial activities to determine the extent of cost growth in the contracts. (Section 364 of the National Defense Authorization Act for Fiscal Year 1995)

Future Years Defense Program

The Secretary of Defense is required to certify that the FY 1996 Future Years Defense Plan (FYDP) satisfies the requirements of Section 221 of Title 10 (requires that the Secretary ensure the amounts in the budget for any fiscal year in the FYDP are consistent with the total amount needed to support the programs and activities contained in the budget). The certification by the Secretary can be made only after consultation with the Inspector General, DoD. (Section 1005 of the National Defense Authorization Act for Fiscal Year 1995)

Nuclear Reactors

The OIG, DoD, is directed to investigate the accuracy of Navy information papers provided to Congress in response to a reduction in funding for reactor components and nuclear alterations. A report is due to the Congress by December 31, 1994. (Conference Report to Accompany S. 2182, National Defense Authorization Act for Fiscal Year 1995 (House Report 103-701))

Review of Army and Air Force Inspectors General Organization

The OIG is to conduct comprehensive reviews to determine the effectiveness of the Army and Air Force Inspector General organizations. A report to the Congress is due by April 15, 1995. (Report of the House Committee on Armed Services on H.R. 4301, National Defense Authorization Act for Fiscal Year 1995 (House Report 103-499))

Ships' Stores

The OIG, DoD, will maintain audit policy oversight of a Naval Audit Agency review of the costs and benefits of converting the operation of ships' stores to operation by the Navy Exchange Service Command. (Report of the House Committee on Armed Services on H.R. 4301, National Defense Authorization Act for Fiscal Year 1995 (House Report 103-499))

Matching Disbursements

The Secretary of Defense is to develop a plan that will require disbursing officials to match disbursements to obligations before making the disbursements. The plan is to be transmitted to the Congress no later than March 1, 1995. The OIG is to review the plan and submit an independent assessment to the Congress. (Section 8137 of the Department of Defense Appropriations Act, 1995).

Other Congressional Requests

Reports issued during this 6-month reporting period required by law or as a result of requests by Members of Congress or congressional committees include:

- Quality Assurance Functions at the Defense Contract Management Area Operations, Cedar Rapids, Iowa (Audit Report 94-091)
- Eighth U.S. Army Milk Plant Contract (Audit Report 94-098)
- Procurement by the Non-Acoustic Anti-Submarine Warfare Program Through the Environmental Technologies Laboratory (Audit Report 94-135)
- Air Force Merged Account Obligations (Audit Report 94-139)
- Quick-Reaction Report on the Audit of the Target Holding Mechanism, Tank Gunnery, Procurement (Audit Report 94-170)
- Truth in Negotiations Act Revised Dollar Threshold (Audit Report 94-171)
- The Defense Nuclear Agency's Thermal Radiation Source Simulation System (Audit Report 94-177)
- Hotel Thayer, U.S. Military Academy, West Point, New York (Audit Report 94-196)
- Review of Hiring and Promotion Practices at the National Security Agency (Inspection Report 94-INS-04)
- Selective Service System (Inspection Report 94-INS-10)
- Review of the Use of Animals in Department of Defense Contract Research Facilities (Program Evaluation, August 1994)

CFO Act Audits

- Financial Statements of the Joint Logistics Systems Center for FY 1993 (Audit Report 94-147)
- Property, Plant and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Funds for FY 1993 (Audit Report 94-149)
- Inventory Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Funds for FY 1993 (Audit Report 94-150)
- Principal Financial Statements of the National Security Education Trust Fund - FY 1993 (Audit Report 94-153)
- Defense Homeowners Assistance Fund Financial Statements for FY 1993 (Audit Report 94-155)
- Pentagon Reservation Maintenance Revolving Fund Financial Statements for FY 1993 (Audit Report 94-156)
- Fund Balances with the Treasury Accounts on the FY 1993 financial statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund (Audit Report 94-159)
- Consolidated Statement of Financial Position of the Defense Business Operations Fund for FY 1993 (Audit Report 94-161)
- Financial Statements of the Defense Reutilization and Marketing Service for FY 1993 (Audit Report 94-164)
- DoD Education Benefits Fund Financial Statements for FY 1993 (Audit Report 94-165)
- Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993 (Audit Report 94-166)
- Selected Financial Accounts on the Defense Logistics Agency Defense Business Operations Fund Financial Statements for FY 1993 (Audit Report 94-167)
- Defense Finance and Accounting Service Work on Army FY 1993 Financial Statements (Audit Report 94-168)

Base Closure and Realignment

- Defense Base Realignment and Closure Budget Data for the Defense Contract Management District-West (Audit Report 94-104)
- Defense Base Realignment and Closure Budget Data for a Tactical Support Center at Naval Air Station Whidbey Island, Washington (Audit Report 94-105)
- Griffiss Air Force Base, New York, Defense Base Realignment and Closure Budget Data for Military Construction at Other Sites (Audit Report 94-107)
- Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for Naval Station Treasure Island, California (Audit Report 94-108)
- Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for the Naval Training Center Great Lakes, Illinois (Audit Report 94-109)
- Defense Base Realignment and Closure Budget Data for Naval Air Technical Training Center, Naval Air Station Pensacola, Florida (Audit Report 94-121)
- Defense Base Realignment and Closure Budget Data for the Naval Medical Center Portsmouth, Virginia (Audit Report 94-125)
- Defense Base Realignment and Closure Budget Data for the Closure of Naval Air Station Glenview, Illinois, and Realignment Projects at Fort McCoy, Wisconsin and Carswell Air Reserve Base, Texas (Audit Report 94-126)
- Defense Base Realignment and Closure Budget Data for the Realignment of the Defense Personnel Support Center to the Naval Aviation Support Office Compound in North Philadelphia, Pennsylvania (Audit Report 94-127)
- Defense Base Realignment and Closure Budget Data for Naval Air Stations Dallas, Texas, and Memphis, Tennessee, Realigning to Carswell Air Reserve Base, Texas (Audit Report 94-141)
- Defense Base Realignment and Closure Budget Data for Closing Naval Air Station Cecil Field, Florida, and Realigning Projects to Various Sites (Audit Report 94-146)

- Defense Logistics Agency 1995 Defense Base Realignment and Closure Data Collection Process for Storage Space Management Data (Audit Report 94-176)
- Defense Base Realignment and Closure Budget Data for McGuire Air Force Base, New Jersey; Barksdale Air Force Base, Louisiana; and Fairchild Air Force Base, Washington (Audit Report 94-179)
- Defense Information Services Organization 1995 Defense Base Realignment and Closure Data Collection Process for the

Facility Baseline Study (Audit Report 94-202)

CONGRESSIONAL CORRESPONDENCE

During the 6-month period covered by this report, the Office of the Inspector General opened 322 cases in response to correspondence and telephone calls from Members of Congress. Most of the cases concerned allegations of mismanagement or procurement or personnel issues. During this same period, the OIG closed 230 cases.

EXHIBIT 13 ADDITIONAL LEGISLATIVE REPORTING REQUIREMENTS		
Public Law	Report Required	When Due
PL. 97-258	An evaluation of the progress in establishing effective management controls and improving the accuracy and completeness of information on contracts for consulting services.	To be submitted with budget justification.
Section 111(g) PL. 99-499	The Inspector General of each Federal agency is to conduct an annual financial audit of all uses of the Hazardous Substance Superfund.	Annually.
Section 1518 PL. 101-510	An inspection of the operations and records of the United States Soldiers' and Airmen's Home and the Naval Home at 6-year intervals. The Inspector General, DoD, is to cause the Inspectors General of the Military Departments to also conduct investigations every 6 years so that each home is inspected every 3 years.	Reports due every 3 years, alternating between the OIG and the Military Departments.
Section 2822 PL. 102-190	An investigation of the increases in construction costs for closing military bases.	Ongoing basis.
Section 546 PL. 102-484	A report on instances when emergency or involuntary mental health evaluations of members of the Armed Forces were used in an inappropriate, punitive or retributive manner.	Ongoing basis.
House Report 102-311 Conference Report National Defense Authorization Act for FY 1992 and FY 1993	An annual review of the manner in which the Military Departments address claims of reprisal, and appropriate recommendations to the Secretary of Defense and the Congress with respect to any changes required to protect Service members against reprisals.	Annually.

APPENDIX A

PERSONNEL STRENGTH AND OPERATING COSTS

PERSONNEL ON BOARD AUDIT, INSPECTION AND INVESTIGATIVE ACTIVITIES (For the 6-Month Period Ending September 30, 1994)

Organization	Personnel On Board ¹					
	Auditors	Criminal Investigators	Non-Criminal Investigators ²	Inspectors	Other ³	Total
Army	644	845	N/A	1,174	942	3,605
Navy/Marines	548	1,186	N/A	173	544	2,451
Air Force	793	1,507	N/A	791	907	3,998
Defense Agencies	0	0	0	72	13	85
Contract Audit	4,409	0	0	0	924	5,333
IG, DoD	660	385	59	129	476	1,709
Total	7,054	3,923	59	2,339	3,806	17,181

¹There is a common misperception that all of the personnel shown in the table oversee the acquisition process. In fact, only the DCAA and the DCIS portion of the OIG, DoD, predominantly address contractor activities. Most of the personnel working for the other organizations are concerned with internal DoD oversight matters.

²Data were not available from the Military Services for this reporting period.

³Includes among others: management, technical, administrative and support, policy and oversight, and followup personnel.

OPERATING COSTS AUDIT, INSPECTION AND INVESTIGATIVE ACTIVITIES (For the 6-Month Period Ending September 30, 1994)

Function	Operating Costs (\$ in millions)				
	Civilian	Military	Travel	Other	Total
Audit					
Internal Audit	\$86.9	\$ 6	\$7.6	\$6.2	\$101.3
Contract Audit	<u>163.0</u>	<u>0</u>	<u>5.7</u>	<u>22.3</u>	<u>191.0</u>
Total	249.9	.6	13.3	28.5	292.3
Inspection	17.4	67.7	7.7	3.4	96.2
Investigation	99.5	66.0	9.3	29.2	204.0
Total Operating Costs	366.8	134.3	30.3	61.1	592.5

APPENDIX B

LEGISLATIVE REPORTING REQUIREMENTS

<u>Public Law</u>	<u>Reporting Requirement</u>	<u>Semiannual Report</u>
Sec. 5(a)(1) P.L. 95-452 as amended	A description of significant problems, abuses and deficiencies disclosed during the reporting period.	Chapters 1,2,3,5
Sec. 5(a)(2) P.L. 95-452 as amended	A description of recommendations for corrective action made with respect to such significant problems, abuses or deficiencies.	Chapter 1
Sec. 8(f)(1) P.L. 95-452 as amended	Numbers and types of contract audits.	Chapter 2
Sec. 5(a)(4) P.L. 95-452 as amended	A summary of matters referred for prosecution and the results of such prosecutions.	Chapter 3
Sec. 4(a)(2) P.L. 95-452 as amended	Review of legislation and directives.	Chapter 6
Sec. 5(a)(6) P.L. 95-452 as amended	A listing, subdivided according to subject matter, of each audit report issued during the reporting period and, where applicable, the total dollar value of questioned costs and the dollar value of recommendations that funds be put to better use.	Appendix C Appendix D
Sec. 5(a)(7) P.L. 95-452 as amended	A summary of each particularly significant report.	Chapter 1
Sec. 5(a)(8)(9) P.L. 95-452 as amended	Statistical tables by status showing the total number of audit reports issued, the total dollar value of associated questioned costs, the dollar value of recommendations that funds be put to better use and the report decision status.	Chapter 1
Sec. 5(b)(2)(3)(4) P.L. 95-452 as amended	Statistical tables showing the status of management corrective action on agreed-upon audit recommendations.	Chapter 1
Sec. 5(a)(10)(11)(12) P.L. 95-452 as amended	Summary of overage undecided audits, significant revised management decisions and significant management decisions with which the inspector general is in disagreement.	Chapter 1

Sec. 5(a)(5)
P.L. 95-452
as amended

A summary of each report made to the Secretary of Defense by the Inspector General of instances when information or assistance was unreasonably refused or not provided. *(During the reporting period, the OIG, DoD, has not been unreasonably refused or denied access for information.)*

Sec. 802
Defense Authori-
zation Act for
Fiscal Year 1990

A review of each waiver made by the Department to any person for contracts for advisory and assistance services with regard to the test and evaluation of a system if that person participated in (or is participating in) the development, production or testing of such system for a Military Department or Defense Agency (or for another contractor of the Department of Defense). *(The Department made no waivers during the period and therefore, no reviews were made by the OIG.)*

APPENDIX C AUDIT REPORTS

This list includes audit reports issued by the Department of Defense central audit organizations--Assistant Inspector General for Auditing, Army Audit Agency, Naval Audit Service, Air Force Audit Agency--but does not include internal review reports, military exchange audit reports or reports prepared by contract audit activities.

*AIG-AUD, DoD Quick-Reaction Reports are issued when immediate management action is needed, e.g., when the award of a contract challenged by the auditors is pending. The quick-reaction report may or may not conform formally to all technical audit standards; however, there is always an adequately documented basis for the findings and recommendations.

**The Antideficiency Act investigations are not audit reports, and the investigations were not conducted in accordance with Government Auditing Standards.

ASSISTANT INSPECTOR GENERAL FOR AUDITING, DoD

94-075 *Advanced Materials Research, Development, Test and Evaluation Laboratories Within DoD (4/1/94)*

94-076 *Contracting Authority at the Defense Mapping Agency (4/1/94)*

94-077 *"Super Scientific, Engineering and Technical Assistance Contracts at the Ballistic Missile Defense Organization (4/8/94) (FOUO)*

94-078 *Microelectronics (Electronic Devices) Research, Development, Test and Evaluation Laboratories Within DoD (4/8/94)*

94-079 *DoD Component Implementing Action Plans for Improving the Quality of Spare Parts (4/12/94)*

94-080 *Information Resources Management at the Defense Information Systems Agency (4/11/94)*

94-081 *Controls Over Access to Personnel and Controls Over Access to Personnel and Payroll Data for the Defense commissary Agency (4/11/94)*

94-082 *Financial Management of the Defense business Operations Fund - FY 1992 (4/11/94)*

94-083 *Central Distribution Center Operations of the Defense Commissary Agency (4/13/94)*

94-084 *Brilliant Pebbles Program (4/14/94)*

94-085 *M43A1 Aircrew Member Protective Mask (4/21/94) (FOUO)*

94-086 *Cash Accountability in the DoD, for the Imprest Fund Maintained at DLA, Sharonville, OH (4/20/94)*

94-087 *Cash Accountability in the DoD, for the Imprest Fund Maintained Within the Directorate of Contracting, U.S. Army Soldier Support Center, Fort Benjamin Harrison, IN (4/20/94)*

94-088 *Cash Accountability in the DoD, for the Imprest Fund Maintained at the Defense Construction Supply Center, Columbus, OH (4/20/94)*

94-089 *Titan IV Requirements (4/21/94)*

94-090 *Management Data Used to Manage the Foreign Military Sales Trust Fund (4/29/94)*

94-091 *Quality Assurance Functions at the Defense Contract Management Area Operations, Cedar Rapids, IA (5/4/94)*

94-092 *Hotline Allegations Relating to the Survivable Command Element, Recovery and Reconstitution Effort at the U.S. Air Force Space Command (5/4/94)*

94-093 *Disposition of Test Assets from Cancelled or Completed Programs (5/4/94)*

94-094 *Vendor Payments - Washington Headquarters Services, Support Services Division (5/11/94)*

94-095 *Cash Accountability in the Department of Defense, Imprest Funds Maintained by the U.S. Army Corps of Engineers, Ohio River Division, Cincinnati, OH (5/11/94)*

94-096 *Air Force Specialized Incentive contracts for National Reconnaissance*

*Office Systems (5/13/94)
(CLASSIFIED)*

94-097 *Pricing for Defense Switched Network Access Circuits (5/13/94)*

94-098 *Eighth U.S. Army Milk Plant Contract (5/13/94)*

94-099 *Quality Assurance Practices for the AV-8B Harrier II Aircraft Wing Skins (5/13/94)*

94-100* *Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center, Denver, CO (5/16/94)*

94-101 *Program Management Organization for the Upper Tier Theater Missile Defense System (5/16/94)*

94-102 *Administrative Lead Time at the Procurement Law Division, Army Aviation and Troop Command (5/17/94)*

94-103 *Air Force Reserve 301st Fighter Wing Covered Aircraft Washrack Project, Carswell Air Reserve Base, TX (5/18/94)*

94-104 *Defense Base Realignment and Closure Budget Data for the Defense Contract Management District-West (5/18/94)*

94-105 *Defense Base Realignment and Closure Budget Data for a Tactical Support Center at Naval Air Station Whidbey Island, WA (5/18/94)*

94-106 *Validation of Technical Data Rights Restrictions for Spare Parts at the Defense Logistics Agency (5/19/94)*

94-107 *Griffiss Air Force Base, New York, Defense Base Realignment and*

Closure Budget Data for Military Construction at Other Sites (5/19/94)

94-108* *Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for Naval Station Treasure Island, CA (5/19/94)*

94-109* *Quick-Reaction Report on the Audit of Defense Base Realignment and Closure Budget Data for the Naval Training Center Great Lakes, IL (5/19/94)*

94-110 *Hotline Allegations Concerning Production Contracts for Amphibious Assault Vehicles (5/20/94)*

94-111 *Acquisition of the Advanced Field Artillery System (5/25/94)*

94-112 *Procurement of Support Services by the Air Force Electronic Systems Center, Hanscom Air Force Base, MA (5/27/94)*

94-113 *Orders Placed Under Federal Supply Schedule Contracts for Total Quality Management Services at Naval Shipyards (5/25/94) (FOUO)*

94-114 *DoD Charges to National Aeronautics and Space Administration for Contract Administration Services (5/25/94)*

94-115 *Milestone Review Process for the Advanced Field Artillery Tactical Data Systems (5/27/94)*

94-116 *Milestone Review Process for the Consolidated Automated Support System (6/2/94)*

94-117 *Accountability and Control of Materiels at Army Depots (6/3/94)*

94-118 *AV-8B Remanufacture Program as Part of the Audit of the Defense Acquisition Board Review - FY 1994 (6/3/94)*

94-119 *Accounts Receivable for DoD Materiel (6/3/94)*

94-120 *Telecommunications Circuit Allocation Programs - Jacksonville Area (6/6/94)*

94-121 *Defense Base Realignment and Closure Budget Data for Naval Air*

Technical Training Center, Naval Air Station Pensacola, FL (6/7/94)

94-122 *Direct Health Care Provider Program (6/7/94)*

94-123 *Test Facility Realignment (6/8/94) (FOUO)*

94-124 *Human Systems Integration Requirements for Air Force Acquisition Programs (6/8/94)*

94-125 *Defense Base Realignment and Closure Budget Data for the Naval Medical Center Portsmouth, VA (6/8/94)*

94-126 *Defense Base Realignment and Closure Budget Data for the Closure of Naval Air Station Glenview, IL, and Realignment Projects at Fort McCoy, WI and Carswell Air Reserve Base, TX (6/10/94)*

94-127 *Defense Base Realignment and Closure Budget Data for the Realignment of the Defense Personnel Support Center to the Naval Aviation Support Office Compound in North Philadelphia, PA (6/10/94)*

94-128 *Management Data Used to Manage the Defense Logistics Agency Supply Management Division of the Defense Business Operations Fund (6/14/94)*

94-129 *Coordination of Quantitative Requirements for Anti-Armor Munitions (6/14/94) (CLASSIFIED)*

94-130 *Supply Support for Mine Warfare Ships (6/14/94)*

94-131 *Review of the V-22 Aircraft Program (6/14/94)*

94-132 *Naval Design Activities Management of Joint Logistics Centers Orders (6/14/94)*

94-133 *Obtaining the Maximum Life from F-404 Jet Engine Components (6/14/94) (FOUO)*

94-134 *Source of Repair for the TF34 Jet Aircraft Engine (6/14/94)*

94-135 *Procurement by the Non-Acoustic Anti-Submarine Warfare Program Through the Environmental Technologies Laboratory (6/14/94)*

94-136 *Hotline Allegations Pertaining to Aerostat Operations (6/16/94)*

94-137 *Critical Management Data Used to Manage the Defense Finance and Accounting Service (6/16/94)*

94-138 *The Air Force's Process for Determining Quantitative Requirements for Anti-Armor Munitions (6/17/94) (CLASSIFIED)*

94-139 *Air Force Merged Account Obligations (6/17/94)*

94-140* *Quick-Reaction Report on the Acquisition of the Standard Missile II with Block IIIB Upgrade (6/16/94)*

94-141 *Defense Base Realignment and Closure Budget Data for Naval Air Stations, Dallas, TX, and Memphis, TN, Realigning to Carswell Air Reserve Base, TX (6/17/94)*

94-142** *Antideficiency Act Investigation of Chemical Agents and Munitions Destruction, Defense, Appropriation (6/17/94)*

94-143 *Implementation of the Mobility Requirements Study (6/20/94) (CLASSIFIED)*

94-144 *Controls Over Two Contract Payments at the Defense Finance and Accounting Service - Columbus Center (6/20/94)*

94-145 *Hotline Allegations Concerning the Procurement of the Improved-Remotely Monitored Battlefield Sensor System (6/20/94)*

94-146 *Defense Base Realignment and Closure Budget Data for Closing Naval Air Station Cecil Field, FL, and Realigning Projects to Various Sites (6/21/94)*

94-147 *Financial Statements for the Joint Logistics Systems Center for FY 1993 (6/24/94)*

94-148 *Air Clearance Process (6/27/94)*

94-149 *Property, Plant and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993 (6/28/94)*

94-150 *Inventory Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993 (6/28/94)*

94-151 *Hotline Allegations of Fund Control in a Special Operations Program (6/28/94)*

94-152 *Hotline Allegations Concerning an Unsolicited Proposal on a Fire Control Radar for the Longbow System (6/29/94)*

94-153 *Principal Financial Statements of the National Security Education Trust Fund - FY 1994 (6/30/94)*

94-154* *Quick-Reaction Report on the Reliability of the M17 Series and M40 Chemical Protective Masks (6/30/94) (CLASSIFIED)*

94-155 *Defense Homeowners Assistance Fund Financial Statements for FY 1993 (6/30/94)*

94-156 *Pentagon Reservation Maintenance Revolving Fund Financial Statements for FY 1993 (6/30/94)*

94-157 *Defense Commissary Agency Financial Management Improvement Program (6/30/94)*

94-158 *Cash Management Within the Defense Reutilization and Marketing Service (6/30/94)*

94-159 *Fund Balances with the Treasury Accounts on the FY 1993 Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund (6/30/94)*

94-160 *The Joint Operation Planning and Execution System (6/30/94)*

94-161 *Consolidated Statement of Financial Position of the Defense Business Operations Fund for FY 1993 (6/30/94)*

94-162 *Administration of Grants by the Defense National Stockpile Center (6/30/94)*

94-163 *Management Data Used to Manage the U.S. Transportation*

Command and the Military Department Transportation Organizations (6/30/94)

94-164 *Financial Statements of the Defense Reutilization and Marketing Service for FY 1993 (6/30/94)*

94-165 *DoD Education Benefits Fund Financial Statements for FY 1993 (6/30/94)*

94-166 *Voluntary Separation Incentive Trust Fund Financial Statements for FY 1993 (6/30/94)*

94-167 *Selected Financial Accounts on the Defense Logistics Agency Defense Business Operations Fund Financial Statements for FY 1993 (6/30/94)*

94-168 *Defense Finance and Accounting Service Work on the Army FY 1993 Financial Statements (7/6/94)*

94-169 *Commissary Management Data (7/25/94)*

94-170* *Quick-Reaction Report on the Audit of the Target Holding Mechanism, Tank Gunnery, Procurement (7/27/94)*

94-171 *Truth in Negotiations Act Revised Dollar Threshold (8/1/94)*

94-172* *Quick-Reaction Report on the Replacement Commissary Construction Project at Fort Bragg, NC (8/1/94)*

94-173 *Selected Special-Purpose Telecommunications Circuits (8/8/94)*

94-174 *Organizational and Consultant Conflicts of Interest (8/10/94)*

94-175 *Software Testing During Post-Deployment Support of Weapon Systems (8/15/94)*

94-176 *Defense Logistics Agency 1995 Defense Base Realignment and Closure Data Collection Process for Storage Space Management Data (8/19/94) (FOUO)*

94-177 *Defense Nuclear Agency's Thermal Radiation Source Simulation Systems (8/26/94)*

94-178 *Acquisition and Management of Ozone Depleting Substances (8/31/94)*

94-179 *Defense Base Realignment and Closure Budget Data for McGuire Air Force Base, NJ; Barksdale Air Force Base, LA; and Fairchild Air Force Base, WA (8/31/94)*

94-180 *DoD's Use and Procurement of Tactical Shelters (8/31/94)*

94-181 *The Effectiveness of Prototyping Acquisition Strategies for Major Defense Acquisition Programs (9/2/94)*

94-182** *Antideficiency Act Investigation of the Family Housing Construction, Defense Agencies Appropriation (9/2/94)*

94-183 *Commissary Revenues (9/2/94)*

94-184 *Controls Over Management of Meat and Tobacco Products at Selected Commissary Stores (9/6/94)*

94-185** *Antideficiency Act Investigation of Real Property Maintenance, Defense FY 1993 Supplemental Appropriation (9/9/94)*

94-186 *Cash Accountability in the Department of Defense, Disbursement Fund and Imprest Funds Maintained in Crane, IN (9/9/94)*

94-187 *Cash Accountability in the Department of Defense, Imprest Fund Maintained by the U.S. Property and Fiscal Officer for Indiana (9/9/94)*

94-188 *Procurement Prices Paid on Missile Systems for Foreign Military Sales (9/14/94)*

94-189 *U.S. Army, Europe Pre-Positioning Requirements for War Reserve Materiel (9/12/94)*

94-190 *Air Force Microwave Landing System (9/20/94)*

94-191 *U.S. Air Forces, Europe Pre-Positioning Requirements for War Reserve Materiel (9/16/94) (CLASSIFIED)*

94-192 *Kiowa Warrior Modification Program (9/19/94)*

94-193 *Air Force Use of Funds on Management Information Systems for Equipment Maintenance (9/20/94)*

94-194 U.S. - German Wartime Host Nation Support Agreement (9/20/94) (CLASSIFIED)

94-195 Pay Differentials at the National Security Agency's Microelectronic Facilities (9/23/94) (FOUO)

94-196 Hotel Thayer, U.S. Military Academy West Point, NY (9/27/94) (FOUO)

94-197 Replacement Commissary Construction Project for the Naval Air Station Pensacola, FL (9/29/94)

94-198* Quick-Reaction Report on Repainting of the C-5 Aircraft (9/29/94)

94-199 Acquisition of Inventory Services for the Defense Information Services Organization (9/30/94)

94-200 DoD Acquisition Information Management (9/30/94)

94-201 Acquisition of the BLACKER and CANEWARE Communications Security Systems (9/30/94) (FOUO)

94-202 Defense Information Services Organization 1995 Defense Base Realignment and Closure Data Collection Process for the Facility Baseline Study (9/30/94) (FOUO)

Army Audit Agency

NR 94-9 Full-Time Support Program for Maintenance of Surface Equipment in the Army National Guard (4/5/94)

SR 94-705 Test Support Contracting Aberdeen Proving Ground, MD (4/6/94)

CR 94-752 Fund Control Procedures, 95th Division (Training), Oklahoma City, OK (4/8/94)

NR 94-209 Management of Facilities at Bases Being Closed or Realigned (4/18/94)

WR 94-5 Dining Facility Attendant Contract, I Corps and Fort Lewis, Fort Lewis, WA (4/18/94)

WR 94-603 Controls Over Expenditures for Base Communications Services and Equipment, National Training Center and Fort Irwin, Fort Irwin, CA (4/25/94)

WR 94-6 Management of Repair Parts, Tools and Equipment, III Corps and Fort Hood, Fort Hood, TX (4/26/94)

WR 94-602 Controls Over Expenditures for Base Communications Services and Equipment, Red River Army Depot, Texarkana, TX (4/27/94)

SR 94-208 Instructor Requirements, U.S. Army Training and Doctrine Command (4/27/94)

CR 94-490 Stabilized Maintenance Rates, Anniston Army Depot (5/2/94)

CR 94-205 Modification Program, U.S. Army Missile Command (5/3/94)

NR 94-300 Management of Repair Parts, 21st Theater Army Area Command, Kaiserslautern, Germany (5/3/94)

WR 94-604 Controls Over Expenditures for Base Communications Services and Equipment, 1st Infantry Division (Mechanized) and Fort Riley, Fort Riley, KS (5/4/94)

NR 94-10 Contracting for Research and Development, U.S. Army Communications-Electronics Command, Fort Monmouth, NJ (5/10/94)

SR 94-218 Installation Security Support, U.S. Army Signal Center and Fort Gordon, Fort Gordon, GA (5/10/94)

NR 94-206 Management of Appliances, U.S. Army, Europe and Seventh Army (5/12/94)

CR 94-753 Special Program Review (5/13/94) (CLASSIFIED)

NR 94-459 Stabilized Rates, Depot Maintenance-Ordnance, Rock Island Arsenal (5/23/94)

NR 94-212 Installation Security Support, U.S. Army Communications-Electronics

Command, Fort Monmouth, NJ, (6/1/94)

CR 94-754 Fund Control Procedures, U.S. Army Reserve Command, Atlanta, GA (6/2/94)

CR 94-755 Resident Engineer Construction Projects, U.S. Army Engineer District, Kansas City (6/6/94)

NR 94-301 War Reserves, U.S. Army Southern European Task Force (6/7/94)

SR 94-11 Base Operations Contracting, 24th Infantry Division (Mechanized) and Fort Stewart, Fort Stewart, GA (6/7/94)

WR 94-7 Management of Professional Personnel, Madigan Army Medical Center, Tacoma, WA (6/13/94)

WR 94-211 Installation Security Support, III Corps and Fort Hood, Fort Hood, TX (6/21/94)

NR 94-213 Equipment Management in the Army National Guard (6/21/94)

HQ 94-751 Managing Workload, Organizations and Staffing (6/23/94)

SR 94-219 Criminal Investigation Practices, U.S. Army Criminal Investigation Command (6/24/94)

WR 94-702 Test Support Contracting (6/30/94)

NR 94-11 Arsenal Operations, Watervliet, NY (6/30/94)

WR 94-210 Subsistence Management, Eight U.S. Army, Seoul, Korea (6/30/94)

SR 94-481 FY 93 Financial Statements, Civil Works, U.S. Army Corps of Engineers (6/30/94)

HQ 94-450 The Army's FY 93 Financial Statements, Audit Opinion (6/30/94)

NR 94-470 Army Defense Business Operations Fund, FY 93 Financial Statements, Audit Opinion (6/30/94)

SR 94-759 Civilian Clothing Allowance Program (7/5/94)

WR 94-209 *Program Execution, 63d U.S. Army Reserve Command, Los Alamitos, CA (7/8/94)*

WR 94-753 *Supply Support Activity, National Training Center and Fort Irwin, Fort Irwin, CA (7/11/94)*

WR 94-10 *Training and Audiovisual Contract, Fort Shafter, HI (7/12/94)*

WR 94-605 *Controls Over Expenditures for Base Communications Services and Equipment, 10th Mountain Division (Light Infantry) and Fort Drum (7/14/94)*

WR 94-15 *Job Order Contracting, Fort Shafter, HI (7/25/94)*

HQ 94-752 *Controls Over Travel (7/25/94)*

NR 94-214 *Contracting for Environmental Projects and Hazardous Waste Disposal, U.S. Army, Europe and Seventh Army, Germany (7/28/94)*

NR 94-215 *Maintenance Float, U.S. Army Tank-Automotive Command (8/2/94)*

SR 94-711 *Installation Military Value Assessments, Total Army Basing Study 1993, U.S. Army Materiel Command, Alexandria, VA (8/3/94)*

CR 94-711 *Civilian Injury and Illness Compensation Program, Fort Knox (8/4/94)*

NR 94-466 *Financial Reporting of Conventional Ammunition (8/4/94)*

NR 94-216 *Program Execution in the U.S. Army Reserve, 94th U.S. Army Reserve Command, Hanscom Air Force Base, MA (8/4/94)*

WR 94-11 *Refuse Collection Contract, Fort Shafter, HI (8/5/94)*

SR 94-13 *Range Operations, XVIII Airborne Corps and Fort Bragg, Fort Bragg, NC (8/8/94)*

NR 94-468 *Stabilized Rates, Depot Maintenance, Ordnance (8/8/94)*

WR 94-16 *Mattress and Boxspring Renovation Contract, Fort Shafter, HI (8/9/94)*

WR 94-14 *Family Housing Cleaning Contract, Fort Shafter, HI (8/10/94)*

WR 94-8 *Base Operations Support Contracts, U.S. Army Intelligence Center and Fort Huachuca, Fort Huachuca, AZ (8/22/94)*

WR 94-212 *Third Party Collection Program (8/24/94)*

CR 94-449 *Management of Ammunition Fixed Prices, Pine Bluff Arsenal (8/24/94)*

SR 94-223 *Use of Service Contracts (8/25/94)*

SR 94-713 *Installation Military Value Assessments, Total Army Basing Study 1993, U.S. Army Training and Doctrine Command, Fort Monroe, VA (8/25/94)*

CR 94-206 *Materiel Modification Program, U.S. Army Aviation and Troop Command and Program Executive Office for Aviation, St. Louis, MO (8/29/94)*

HQ 94-452 *The Army's FY 93 Financial Statements, Followup Issues (8/30/94)*

SR 94-486 *The Army's FY 93 Financial Statements, Military and Civilian Payrolls (8/30/94)*

SR 94-485 *The Army's FY 93 Financial Statements, Cash Flow Statement (8/30/94)*

WR 94-756 *Family Housing Maintenance, III Corps and Fort Hood, Fort Hood, TX (8/30/94)*

NR 94-217 *Local National Employees' Severance Benefits, U.S. Army, Europe and Seventh Army, Germany (8/31/94)*

WR 94-473 *The Army's FY 93 Financial Statements, Retail Military Equipment (8/31/94)*

HQ 94-451 *The Army's FY 93 Financial Statements, DoD Policy Issues (8/31/94)*

WR 94-711 *Civilian Injury and Illness Compensation Program, Fort Sam Houston, TX (9/2/94)*

WR 94-18 *Contracting Operations, U.S. Army Kwajalein Atoll, Kwajalein Atoll, Marshall Islands (9/7/94)*

NR 94-218 *Modification Program, U.S. Army Tank-Automotive Command, Warren, MI (9/8/94)*

SR 94-15 *Dental Care Program, U.S. Army Dental Activity, Fort Bragg, NC (9/13/94)*

NR 94-220 *Family Housing and Allowances, U.S. Army, Europe and Seventh Army (9/13/94)*

SR 94-14 *Acquisition of Training Devices (9/13/94)*

WR 94-850 *Followup Audit, Appropriated Fund Acquisitions Using Nonappropriated Funds, Fort Sam Houston, TX (9/14/94)*

WR 94-755 *Management of Medical Equipment, U.S. Army Medical Department Activity, Fort Irwin, Fort Irwin, CA (9/15/94)*

NR 94-221 *Maintenance Float (9/19/94)*

WR 94-606 *Controls Over Expenditures for Base Communications Services and Equipment (9/19/94)*

NR 94-469 *Stabilized Rates, Depot Maintenance, Other (9/20/94)*

WR 94-762 *Space Utilization, U.S. Army Intelligence Center and Fort Huachuca, Fort Huachuca, AZ (9/22/94)*

WR 94-9 *Acquisition and Contract Administration, Fort Huachuca, AZ (9/23/94)*

NR 94-422 *FY 93 Superfund Financial Transactions (9/23/94)*

WR 94-215 *Installation Security Support, Fort Huachuca, AZ (9/26/94)*

NR 94-219 *Program Execution in the U.S. Army Reserve, 79th U.S. Army Reserve Command, Willow Grove, PA (9/26/94)*

NR 94-471 *Army Defense Business Operations Fund, FY 93 Financial*

Statements, Report of Management Issues (9/29/94)

WR 94-213 *Mission Contingency Stock, U.S. Army Space and Strategic Defense Command (9/30/94)*

Naval Audit Service

040-W-94 *Civilian Overtime Administration Navy-Wide (4/5/94)*

041-S-94 *Fiscal Year 1995 Military Construction Projects Stemming from Decision of the 1993 Base Closure and Realignment Commission (4/15/94)*

042-W-94 *Drydock Caisson Pier, Military Construction Project P-072 (5/5/94)*

044-W-94 *Validation of Selected Obligations of Fiscal Year 1991 Aircraft Procurement, Navy Appropriation (5/19/94)*

045-S-94 *Naval Reserve Force Full-Time Support Personnel Requirements (5/25/94)*

046-W-94 *Quality Assurance Review of the Chief of Naval Education and Training Command (5/19/94)*

047-C-94 *Morale, Welfare and Recreation Operations at the U.S. Naval Station, Rota, Spain (5/27/94)*

048-N-94 *Retrofit of Detecting and Ranging Sets for A-6E Aircraft (6/8/94)*

049-W-94 *Marine Corps War Reserve Requirements for Major End Items (6/10/94)*

050-W-94 *Validity of Selected Unliquidated Operation and Maintenance, Marine Corps Obligations (6/17/94)*

051-S-94 *Naval Aviation Engine Airfoil Repair and Refurbishment Program (6/23/94)*

052-W-94 *Center Telecommunications System at Naval Air Warfare Center, Weapons Division, China Lake, CA (6/24/94)*

053-H-94 *Fiscal Year 1993 Consolidating Financial Statements of the Department of the Navy Defense Business Operations Fund (6/29/94)*

054-S-94 *Fiscal Year 1993 Financial Statements of the Department of the Navy Management Fund (6/30/94)*

055-C-94 *Fiscal Year 1993 Principal Financial Statements of the United States Naval Academy Museum Fund (6/30/94)*

056-C-94 *Fiscal Year 1993 Principal Financial Statements of the United States Naval Academy General Gift Fund (6/30/94)*

057-R-94 *Fiscal Year 1994 Consolidated Report on Followup Audits Completed by Naval Reserve Naval Audit Service Unit 106 (7/20/94)*

058-H-94 *Trends in Management Responsiveness to Financial Audits (7/8/94)*

059-W-94 *Navy Fleet Hospital Program (7/15/94)*

060-C-94 *Acquisition and Modification of C-130 Hercules Aircraft (7/18/94)*

061-S-94 *Fiscal Year 1993 Report on Financial Position of the United States Naval Home (7/19/94)*

062-C-94 *Special Duty Assignment Pay (7/20/94)*

063-S-94 *Fiscal Year 1993 Productivity Gain Sharing Calculation, Naval Aviation Depot Jacksonville (9/16/94)*

064-W-94 *Refuse Contract at Navy Public Works Center, Pearl Harbor, HI (9/30/94)*

065-C-94 *Navy Family Housing Requirements (9/26/94)*

066-C-94 *Contracting Procedures at Naval Air Warfare Center, Aircraft Division, Flight Test and Engineering Group, Patuxent River, MD (9/30/94)*

Air Force Audit Agency

92061008 *Cargo and Tanker Aircraft Wartime Spare Engine Requirements (4/12/94) (CLASSIFIED)*

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93051015 *Management of Advanced Academic Degree Billets (6/10/94)*

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93051018 *Information Management of the Air Force Personnel Reliability Program (8/8/94)*

93052006 *Hazardous Waste Operations and Emergency Response Programs (5/11/94)*

93052010 *Management of the Resource Recovery and Recycling Program (4/15/94)*

93052014 *Management of Facility Utilization (7/20/94)*

93053007 *Equipment and Vehicle Inventory, Fiscal Year 1993 Air Force Consolidated Financial Statements (7/22/94)*

93053013 *Military Personnel Costs, Fiscal Year 1993 Air Force Consolidated Financial Statements (7/1/94)*

93053014 *Civilian Payroll, Fiscal Year 1993 Air Force Consolidated Financial Statements (6/6/94)*

93053015 *Accuracy and Validity of Air Force Obligations, Fiscal Year 1993 Air Force Consolidated Financial Statements (8/26/94)*

93053024 *Military Equipment, Fiscal year 1993 Air Force Consolidated Financial Statements (7/20/94)*

93054002 *Air Force Implementation of Electronic Commerce and Electronic Data Interchange (4/15/94)*

93054008 *Air Force Management of Cellular Telephones (4/1/94)*

93054019 *Management of Emergency Telephone Systems and 24-Hour Response Centers (7/1/94)*

93054021 *Management of Controls Over Expenditures for Base Communications Services and Equipment (8/8/94)*

93058002 *Management of the TDY-to-School Centrally Managed Allotment (6/15/94)*

93061015 *Management of Pallet and Net Maintenance and Storage (6/13/94)*

93061025 *F108 Spare Engine Final Buy and Distribution Computations (5/26/94)*

93061028 *Reparable Support Division Accounting and Usage Data (6/21/94)*

93062003 *Air Force Two-Level Maintenance Planning (4/27/94)*

93062014 *Job Routed Repair of Recoverable Engine Items (5/11/94)*

93063006 *Logistics Management of the Minuteman II Drawdown (5/11/94)*

93063015 *Management of Foreign Military Sales Custom Commitment Transactions Within Air Force Materiel Command (4/28/94)*

93063017 *Management of the Air Force Technical Applications Center Acquisition Process (6/13/94) (CLASSIFIED)*

93063018 *Management of the National Air Intelligence Center Acquisition Process (6/13/94) (CLASSIFIED)*

93064003 *Control Over the Use of International Merchants Purchase Authorization Cards for Small Purchases (6/17/94)*

93064018 *Contracting for Travel Services (6/6/94)*

93064019 *Contracting for Military Family Housing Maintenance in Pacific Air Forces (4/1/94)*

93064020 *Followup Audit - Acquisition Program Baselines for Acquisition Category II, III and IV Programs (5/11/94)*

93066010 *Reliability and Maintainability Information System User Requirements (4/11/94)*

93066017 *Government Furnished Material Transaction Reporting System (G009) Enhancement Program (7/14/94)*

93066018 *General and Application Controls Within the Item Manager Wholesale Requisition Process System (8/26/94)*

93066023 *Application Controls Within the Depot Maintenance Actual Material Cost System (6/10/94)*

93068002 *Financial Reporting of Fiscal Year 1993 Medical/Dental Division Inventories Within the Supply Management Business Area (7/11/94)*

93068006 *Financial Reporting of Fiscal Year 1993 Inventories Not Held for Sale Within the Depot Maintenance Service Business Area (8/8/94)*

93068007 *Internal Control and Management Issues Related to Disbursements for Supplies and Services, Fiscal Year 1993 Financial Statements (4/15/94)*

93068008 *Financial Reporting of Fiscal Year 1993 Revenue, Accounts Receivable and Progress Billing Within the Depot Maintenance Service Business Area (7/1/94)*

93068009 *Financial Reporting of Fiscal year 1993 Accrued Liabilities Within the Depot Maintenance Service Business Area (6/21/94)*

93068010 *Financial Reporting of Fiscal Year 1993 Property, Plant and Equipment Within the Depot Maintenance Service and Supply Management Business Areas (7/1/94)*

93068016 *Financial Reporting of Fiscal Year 1993 Inventories Within the Supply Management Business Area (8/26/94)*

93068031 *Financial Reporting of Fiscal Year 1993 Revenues and Expenses*

Within the Supply Management Business Area (7/1/94)

93079001 *Pacific Air Forces Management of Aircraft Fuel Servicing Assets (8/26/94)*

94052025 *Documentation Supporting Air Force 1993 Base Closure and Realignment Recommendations (8/26/94)*

94052026 *Management of the Air Force 1995 Base Closure and Realignment Evaluation Process - Phase 1 (5/6/94)*

94053021 *Management Initiatives to Improve Financial Reporting Fiscal Year 1993 Air Force Consolidated Financial Statements (8/8/94)*

94053022 *Opinion on Fiscal Year 1993 Air Force Consolidated Financial Statements (6/30/94)*

94053024 *Contingent Liabilities, Fiscal Year 1993 Air Force Consolidated Financial Statements (8/8/94)*

94053026 *Real Property Accounting Process, Fiscal Year 1993 Air Force Consolidated Financial Statements (7/27/94)*

94053029 *Overview and Performance Measures, Fiscal Year 1993 Air Force Consolidated Financial Statements (8/8/94)*

94053030 *Fund Control Process, Fiscal Year 1993 Air Force Consolidated Financial Statements (8/26/94)*

94053031 *Inventories Not Held For Sale, Fiscal Year 1993 Air Force Consolidated Financial Statements (7/1/94)*

94054002 *Air Force Wing Command and Control System (5/6/94)*

94061010 *Base-Level Inventory Adjustments (8/26/94)*

94061014 *Aircraft Support Equipment Replacement Requirements (8/26/94)*

94061015 *Management of Logistics Support to Arctic Areas (6/10/94)*

94062011 Followup Audit - Management of Vehicle Maintenance Operations (8/26/94)

94063005 Human Systems Program Office Acquisition Activities (7/14/94)

94063014 Management of the Technology Transfer Control Program (5/27/94)

94063015 The Advanced Cruise Missile Contracting and Financial Activities (9/9/94)

94064002 Cost-Effectiveness of Contracted Advisory and Assistance Services at Space and Missile Systems Center (6/9/94)

94064010 Followup Audit - Review of Simplified Acquisition of Base

Engineering Requirements Contracts (7/15/94)

94068017 Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Inventories Held for Sale Balance (6/30/94)

94068018 Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Inventories Not Held for Sale Balances (6/30/94)

94068019 Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Property, Plant and Equipment Balances (6/30/94)

94068020 Opinion on Air Force Defense Business Operations Fund, Fiscal Year 1993 Fund Balance with Treasury (6/30/94)

94068021 Financial Reporting of Fiscal Year 1993 Property, Plant and Equipment Within the Transportation Service Business Area (7/11/94)

94068022 Financial Reporting of Fiscal Year 1993 Inventories Within the Transportation Services Business Area (6/21/94)

94068025 Quick Reaction Report - Air Force Depot Maintenance Service, Fiscal Year 1993 Material In-Transit Balances (Project 93068009) (4/1/94)

94068026 Financial Reporting of Fiscal Year 1993 Disbursements and Collections Within the Air Force Defense Business Operations Fund (8/8/94)

Copies of audit reports may be obtained from the appropriate issuing office by calling:

OIG, DoD
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(703) 756-2883

Naval Audit Service
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Air Force Audit Agency*
(703) 696-8027

* Only Government agencies may request copies by telephone; all news media, individuals and others outside the Government should write to AFSA/IM (FOIA), 1125 Air Force Pentagon, Washington, DC 20330-1125.

APPENDIX D¹

**INSPECTOR GENERAL, DoD AUDIT REPORTS ISSUED
CONTAINING
QUANTIFIABLE POTENTIAL MONETARY BENEFITS²**

Audit Reports Issued (Period Ending September 30, 1994)	Potential Monetary Benefits (\$ in thousands)	
	Disallowed Costs ³	Funds Put to Better Use
94-075 Advanced Materials Research, Development, Test and Evaluation Laboratories Within DoD (4/1/94)		\$160,000
94-077 "Super" Scientific, Engineering and Technical Assistance Contracts at the Ballistic Missile Defense Organization (4/8/94)	\$2,252	45,962
94-078 Microelectronics (Electronic Devices) Research, Development, Test and Evaluation Laboratories Within DoD (4/8/94)		306,000
94-083 Central Distribution Center Operations of the Defense Commissary Agency (4/13/94)		14,700
94-089 Titan IV Requirements (5/13/94)		1,788,000
94-093 Disposition of Test Assets from Canceled or Completed Programs (5/16/94)		1,200
94-097 Pricing for Defense Switched Network Access Circuits (5/17/94)		28,133
94-100 Quick-Reaction Report on the Commissary Construction Project at the Fitzsimons Army Medical Center, Denver, CO (5/18/94)		1,000
94-102 Administrative Lead Time at the Procurement Law Division, Army Aviation and Troop Command (5/17/94)		2,200
94-103 Air Force Reserve 301st Fighter Wing Covered Aircraft Washrack Project, Carswell Air Reserve Base, TX (5/18/94)		350
94-104 Defense BRAC Budget Data for the Defense Contract Management District-West (5/18/94)		8,000
94-105 Defense BRAC Budget Data for a Tactical Support Center at Naval Air Station, Whidbey Island, WA (5/18/94)		7,000
94-107 Griffiss Air Force Base, NY, Defense BRAC Budget Data for Military Construction at Other Sites (5/19/94)		69,500
94-108 Quick-Reaction Report on the Audit of Defense BRAC Budget Data for Naval Station, Treasure Island, CA (5/19/94)		2,468
94-109 Quick-Reaction Report on the Audit of Defense BRAC Budget Data for the Naval Training Center, Great Lakes, IL (5/19/94)		1,800
94-112 Procurement of Support Services by the Air Force Electronic Systems Center, Hanscom Air Force Base, MA (5/27/94)	7,700	57,700

Audit Reports Issued (Period Ending September 30, 1994)	Potential Monetary Benefits (\$ in thousands)	
	Disallowed Costs ²	Funds Put to Better Use
94-114 DoD Charges to National Aeronautics and Space Administration for Contract Administration Services (5/25/94)		12,500
94-115 Milestone Review Process for the Advanced Field Artillery Tactical Data Systems (5/31/94)		76,900
94-118 The AV-8B Remanufacture Program as Part of the Audit of the Defense Acquisition Board Review (6/3/94)		156,700
94-119 Accounts Receivable for DoD Material (6/3/94)		410
94-120 Telecommunications Circuit Allocation Programs - Jacksonville Area (6/6/94)		11,154
94-121 Defense BRAC Budget Data for Naval Air Technical Training Center, Naval Air Station, Pensacola, FL (6/7/94)		3,265
94-125 Defense BRAC Budget Data for the Naval Medical Center, Portsmouth, VA (6/8/94)		9,700
94-126 Defense BRAC Budget Data for the Closure of Naval Air Station, Glenview, IL, and Realignment Projects at Fort McCoy, WI, and Carswell Air Reserve Base, TX (6/10/94)		4,400
94-133 Obtaining the Maximum Life from F-404 Jet Engine Components (6/14/94)		23,100
94-135 Procurements by the Non-Acoustic Anti-Submarine Warfare Program Through the Environmental Technologies Laboratory (6/14/94)		1,200
94-140 Quick-Reaction Report on the Acquisition of the Standard Missile 11 with Block IIIB Upgrade (6/16/94)		436,200
94-141 Defense BRAC Budget Data for Naval Air Stations Dallas, TX, Memphis, TN, Realigning to Carswell Air Reserve Base, TX (6/17/94)		122,000
94-143 Implementation of the Mobility Requirements Study (6/20/94)		90,100
94-146 Defense BRAC Budget Data for Closing Naval Air Station Cecil Field, FL, and Realigning Projects to Various Sites (6/21/94)		17,800
94-148 Air Clearance Process (6/27/94)		100,000
94-149 Property, Plant and Equipment Accounts on the Financial Statements of the Defense Logistics Agency Business Areas of the Defense Business Operations Fund for FY 1993 (6/28/94)		417,000
94-158 Cash Management Within the Defense Reutilization and Marketing Services (6/30/94)		30,500
94-162 Administration of Grants by the Defense National Stockpile Center (6/30/94)	2,434	

Audit Reports Issued (Period Ending September 30, 1994)	Potential Monetary Benefits (\$ in thousands)	
	Disallowed Costs ³	Funds Put to Better Use
94-172 Replacement Commissary Construction Project at Fort Bragg, NC (8/1/94)		14,400
94-173 Selected Special-Purpose Telecommunications Circuit (8/8/94)		386
94-178 Acquisition and Management of Ozone Depleting Substances (8/31/94)		6,329
94-179 Defense BRAC for McGuire Air Force Base, NJ, Barksdale Air Force Base, LA, and Fairchild Air Force Base, WA (8/31/94)		68,200
94-184 Control Over Management of Meat and Tobacco Products at Selected Commissary Stores (9/6/94)		5,200
94-189 U.S. Army, Europe Prepositioning Requirement for War Reserve Materiel (9/12/94)		4,300
94-190 Quick-Reaction Report on the Air Force Microwave Landing System (9/20/94)		27,800
94-191 U.S. Air Forces, Europe Pre-positioning Requirement for War Reserve Materiel (9/16/94)		2,900
94-194 U.S. - German Wartime Host Nation Support Agreement (9/20/94)		292,900
94-195 Pay Differentials at the National Security Agency Microelectronic Facilities (9/23/94)		2,880
94-197 Replacement Commissary Construction Project for Naval Air Station, Pensacola, FL (9/29/94)		3,500
94-198 Quick-Reaction Report on Repainting of the C-5 Aircraft (9/29/94)		59,300
94-199 Acquisition of Inventory Services for Defense Information Services Organization (9/30/94)	30	217
Totals	\$12,416	\$4,495,254
¹ In accordance with the Inspector General Act of 1988. ² Appendix C is a complete list of audit reports issued by the OIG, DoD, during the period. ³ None of the disallowed costs involve unsupported costs.		

APPENDIX E

INVESTIGATIVE CASE RESULTS Investigations Not Involving Procurement Fraud or Major Health Care Areas (For the 6-month period ending September 30, 1994)			
	Totals For Period		
	DOJ	DoD	State/Local/Foreign
LITIGATION RESULTS			
Indictments			
DCIS	31		6
CIDC	27		7
NCIS	28		40
OSI	26		16
Joint DCIOs	54		9
Convictions			
DCIS	15		9
CIDC	39		10
NCIS	63		60
OSI	40		9
Joint DCIOs	37		13
Civil Settlements/Judgments			
DCIS	2		0
CIDC	0		0
NCIS	4		0
OSI	8		1
Joint DCIOs	1		0
UCMJ RESULTS			
Charges		216	
Convictions		417	
Nonjudicial Punishments		361	
MONETARY OUTCOMES (\$000)			
DCIS	\$1,153	\$8,329	\$149
CIDC	221	2,667	7
NCIS	435	3,069	61
OSI	163	3,826	420
Joint DCIOs	161	629	121

Additional information on or copies of this report may be obtained by writing or contacting any of the following personnel:

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